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CUSTOMER-CENTRICITY *through* AGILE@SCALE

RHB Bank Berhad

FINANCIAL REPORT 2018

Our Cover Rationale

AT RHB BANKING GROUP, OUR CUSTOMERS ARE AT THE HEART OF EVERYTHING THAT WE DO. WE ARE DRIVEN BY OUR COMMITMENT TO DELIVER SUPERIOR EXPERIENCES THAT BUILD TRUST, DELIVER CONVENIENCE AND CREATE VALUE TO OUR CUSTOMERS.

AGILE@SCALE, A KEY COMPONENT OF THE GROUP'S FIT22 STRATEGY IS PART OF OUR STRATEGIC FOCUS TO CREATE A WINNING OPERATING MODEL, AIMED AT ACHIEVING FASTER SPEED-TO-MARKET, INCREASING PRODUCTIVITY, DRIVING A HIGH PERFORMANCE CULTURE AND DELIVERING SUPERIOR CUSTOMER JOURNEYS.

DIGITAL TECHNOLOGY IS A KEY ENABLER TOWARDS ENHANCING SERVICE EXCELLENCE, THROUGH A CONNECTED ECOSYSTEM TO DELIVER SIMPLE, FAST AND SEAMLESS DIGITAL SOLUTIONS TO OUR CUSTOMERS.

BUILDING TRUST, DELIVERING CONVENIENCE & CREATING VALUE

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Responsibility Statement by the Board of Directors

The Directors are responsible in ensuring that the audited financial statements of the Group and the Bank are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Bank are prepared with reasonable accuracy from the accounting records of the Group and the Bank so as to give a true and fair view of the financial position of the Group and the Bank as at 31 December 2018 and of the financial performance and cash flows of the Group and the Bank for the financial year ended 31 December 2018.

The audited financial statements are prepared on the going concern basis and the Directors have ensured that appropriate and relevant accounting policies are applied on a consistent basis and accounting judgements and estimates made are reasonable and fair so as to enable the preparation of the financial statements of the Group and the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

Directors' Report

The Directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and finance related business and the provision of related services. The Group is involved in commercial banking and finance related business, Islamic banking, investment banking, stock broking, leasing, offshore banking, offshore trust services, property investment, general insurance, unit trust management, asset management, nominee and custodian services.

There have been no significant changes in these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before taxation	3,119,055	2,235,717
Taxation	(810,143)	(601,474)
Net profit for the financial year	2,308,912	1,634,243

DIVIDENDS

The dividends paid by the Bank since 31 December 2017 were as follows:

	RM'000
In respect of the financial year ended 31 December 2017:	
– Single-tier final dividend of 10.00 sen per share, paid on 19 June 2018	401,005
In respect of the financial year ended 31 December 2018:	
– Single-tier interim dividend of 7.50 sen per share, paid on 3 October 2018	300,753
	701,758

At the forthcoming Annual General Meeting, a single-tier final dividend in respect of the current financial year of 13.00 sen per share amounting to RM521,306,000 will be proposed for shareholders' approval. The single-tier final dividend was approved by the Board of Directors on 24 January 2019.

The financial statements for the current financial year do not reflect this single-tier final dividend. This dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2019.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

Directors' Report

ISSUE OF SHARES

There were no issue of shares in the Bank during the financial year.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that proper actions have been taken in relation to the writing off of bad debts and financing and the making of allowance for impaired debts and financing, and satisfied themselves that all known bad debts and financing have been written off and that adequate allowance had been made for impaired debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing or the amount of allowance for impaired debts and financing in the financial statements of the Group and the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and the Bank, had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Bank misleading.

VALUATION METHOD

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Group and the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and the Bank to meet their obligations as and when they fall due.

Directors' Report

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and the Bank which would render any amount stated in the financial statements misleading or inappropriate.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group or the Bank for the financial year in which this report is made.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant event during the financial year is disclosed in Note 56 to the financial statements.

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Events subsequent to the balance sheet date are disclosed in Note 57 to the financial statements.

DIRECTORS

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of the report are:

Tan Sri Azlan Zainol	
Tan Sri Saw Choo Boon	
Abdul Aziz Peru Mohamed	
Tan Sri Ong Leong Huat @ Wong Joo Hwa	
Mohamed Ali Ismaeil Ali Alfahim	
Tan Sri Dr Rebecca Fatima Sta Maria	
Ong Ai Lin	
Lim Cheng Teck	(Appointed on 28 November 2018)
Dato' Khairussaleh Ramli	

Pursuant to Clause 94 of the Bank's Constitution, Tan Sri Azlan Zainol, Tan Sri Saw Choo Boon and Tan Sri Ong Leong Huat @ Wong Joo Hwa retire at the forthcoming Annual General Meeting of the Bank and being eligible, offer themselves for re-election.

Pursuant to Clause 98 of the Bank's Constitution, Lim Cheng Teck retires at the forthcoming Annual General Meeting of the Bank and being eligible, offers himself for re-election.

Directors' Report

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act 2016, the Directors in office at the end of the financial year holding securities of the Bank and its related corporations are as follows:

	Number of ordinary shares			
	As at 1.1.2018	**Bought**	**Sold**	**As at 31.12.2018**
Bank				
Tan Sri Ong Leong Huat @ Wong Joo Hwa:				
– Indirect*	31,431	–	–	**31,431**
– Indirect^	406,171,518	–	–	**406,171,518**
Tan Sri Saw Choo Boon:				
– Direct	–	30,000	10,000	**20,000**

Notes:

* The interest is held through family members.

^ Deemed interest pursuant to Section 8(4) of the Companies Act 2016 by virtue of shares held through OSK Holdings Berhad.

Other than the above, none of the other Directors holding office at the end of the financial year had any interest in the securities of the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 40 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiaries is a party, being arrangements with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

SUBSIDIARIES

Details of subsidiaries are set out in Note 16 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 39 to the financial statements.

Directors' Report

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 27 February 2019. Signed on behalf of the Board of Directors:

TAN SRI AZLAN ZAINOL
CHAIRMAN

DATO' KHAIRUSSALEH RAMLI
GROUP MANAGING DIRECTOR

Kuala Lumpur

Statements of Financial Position

as at 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
ASSETS					
Cash and short term funds	2	**12,553,188**	9,951,878	**8,855,326**	7,614,663
Deposits and placements with banks and other financial institutions	3	**898,120**	1,161,601	**10,990,797**	11,275,105
Financial assets at fair value through profit or loss ('FVTPL')	4	**3,800,649**	2,564,269	**1,891,771**	828,006
Financial investments available-for-sale ('AFS')	5	**–**	25,816,616	**–**	21,427,655
Financial investments held-to-maturity ('HTM')	6	**–**	19,045,943	**–**	14,496,205
Financial assets at fair value through other comprehensive income ('FVOCI')	7	**32,577,833**	–	**27,584,376**	–
Financial investments at amortised cost	8	**14,090,275**	–	**10,228,651**	–
Loans, advances and financing	9	**165,629,774**	158,301,463	**108,216,146**	109,530,317
Clients' and brokers' balances	10	**943,056**	1,599,594	**–**	–
Reinsurance assets	11	**511,236**	482,760	**–**	–
Other assets	12	**1,489,839**	1,106,048	**921,813**	906,895
Derivative assets	13	**1,131,057**	1,826,667	**1,147,494**	1,834,676
Statutory deposits	14	**4,795,230**	4,001,002	**2,978,677**	2,538,107
Tax recoverable		**389,172**	115,874	**351,451**	58,871
Deferred tax assets	15	**79,191**	36,072	**32,490**	–
Investments in subsidiaries	16	**–**	–	**4,911,660**	4,495,837
Investments in associates and joint ventures	17	**25,352**	48,253	**–**	–
Property, plant and equipment	18	**999,962**	1,013,710	**753,531**	756,434
Goodwill	19	**2,649,307**	2,649,307	**1,651,542**	1,651,542
Intangible assets	20	**602,438**	488,869	**527,562**	415,690
TOTAL ASSETS		**243,165,679**	230,209,926	**181,043,287**	177,830,003

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Financial Position

as at 31 December 2018

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
LIABILITIES AND EQUITY					
Deposits from customers	21	**178,856,330**	166,865,031	**127,145,222**	121,237,748
Deposits and placements of banks and other financial institutions	22	**18,290,894**	21,079,737	**17,526,185**	22,031,408
Obligations on securities sold under repurchase agreements	23	**2,194,324**	604,163	**3,120,449**	1,587,979
Bills and acceptances payable		**301,603**	302,152	**247,552**	286,751
Clients' and brokers' balances	24	**841,782**	1,369,395	**–**	–
General insurance contract liabilities	25	**1,094,114**	998,310	**–**	–
Other liabilities	26	**2,922,556**	2,715,111	**2,082,123**	1,573,546
Derivative liabilities	13	**1,116,701**	2,551,504	**1,120,287**	2,513,980
Recourse obligation on loans sold to Cagamas Berhad ('Cagamas')	27	**5,266,116**	1,729,606	**2,995,877**	1,729,606
Tax liabilities		**24,578**	33,531	**–**	–
Deferred tax liabilities	15	**2,308**	19,698	**–**	14,467
Borrowings	28	**1,182,885**	1,153,719	**981,849**	978,068
Senior debt securities	29	**3,323,664**	3,252,581	**3,323,664**	3,252,581
Hybrid Tier-1 Capital Securities	30	**603,221**	602,666	**608,235**	607,678
Subordinated obligations	31	**3,748,655**	3,748,294	**2,589,066**	2,588,638
TOTAL LIABILITIES		**219,769,731**	207,025,498	**161,740,509**	158,402,450
Share capital	32	**6,994,103**	6,994,103	**6,994,103**	6,994,103
Reserves	33	**16,363,884**	16,155,611	**12,308,675**	12,433,450
		23,357,987	23,149,714	**19,302,778**	19,427,553
Non-controlling interests ('NCI')	34	**37,961**	34,714	**–**	–
TOTAL EQUITY		**23,395,948**	23,184,428	**19,302,778**	19,427,553
TOTAL LIABILITIES AND EQUITY		**243,165,679**	230,209,926	**181,043,287**	177,830,003
COMMITMENTS AND CONTINGENCIES	47	**172,941,427**	172,225,623	**167,318,657**	165,378,488

The accompanying accounting policies and notes form an integral part of these financial statements.

Income Statements

for the financial year ended 31 December 2018

		Group		Bank	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Interest income	35	**8,015,172**	7,705,830	**7,954,609**	7,592,080
Interest expense	36	**(4,359,938)**	(4,184,023)	**(4,213,342)**	(4,079,559)
Net interest income		**3,655,234**	3,521,807	**3,741,267**	3,512,521
Other operating income	37	**1,722,052**	1,783,691	**872,745**	884,471
Income from Islamic Banking business	38	**1,428,327**	1,078,877	**556**	(6)
Net income		**6,805,613**	6,384,375	**4,614,568**	4,396,986
Other operating expenses	39	**(3,357,655)**	(3,184,181)	**(2,206,020)**	(2,075,667)
Operating profit before allowances		**3,447,958**	3,200,194	**2,408,548**	2,321,319
Allowance for credit losses on financial assets	41	**(306,002)**	(642,789)	**(172,831)**	(472,076)
Impairment losses (made)/written back on other non-financial assets	42	**(23,000)**	336	**–**	–
		3,118,956	2,557,741	**2,235,717**	1,849,243
Share of results of joint ventures		**99**	391	**–**	–
Profit before taxation		**3,119,055**	2,558,132	**2,235,717**	1,849,243
Taxation	43	**(810,143)**	(602,092)	**(601,474)**	(414,674)
Net profit for the financial year		**2,308,912**	1,956,040	**1,634,243**	1,434,569
Attributable to:					
– Equity holders of the Bank		**2,305,196**	1,950,145	**1,634,243**	1,434,569
– NCI		**3,716**	5,895	**–**	–
		2,308,912	1,956,040	**1,634,243**	1,434,569
Earnings per share (sen)					
– Basic	44	**57.5**	48.6		
– Diluted	44	**57.5**	48.6		

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2018

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Net profit for the financial year	**2,308,912**	1,956,040	**1,634,243**	1,434,569
Other comprehensive income/(loss) in respect of:				
(i) Items that will not be reclassified to profit or loss:				
(a) Actuarial gain on defined benefit plan of subsidiaries	**8,193**	891	**–**	–
(b) Equity instruments designated at FVOCI				
– Net loss on disposal	**(1,440)**	–	**(1,442)**	–
– Unrealised net gain on revaluation	**33,720**	–	**30,631**	–
(ii) Items that will be reclassified subsequently to profit or loss:				
(a) Foreign currency translation reserves				
– Currency translation differences	**56,809**	(273,138)	**28,117**	(56,726)
– Net investment hedge	**(1,620)**	12,773	**–**	–
(b) Financial investments AFS				
– Unrealised net gain on revaluation	**–**	168,711	**–**	117,565
– Net transfer to income statements on disposal or impairment	**–**	86,567	**–**	86,719
(c) Debt instruments measured at FVOCI				
– Unrealised net gain	**74,910**	–	**52,139**	–
– Net transfer to income statements on disposal	**(72,067)**	–	**(66,690)**	–
– Changes in expected credit losses and exchange differences	**(2,639)**	–	**(2,887)**	–
Income tax relating to components of other comprehensive income	**(8,358)**	(60,078)	**(3,719)**	(51,603)
Other comprehensive income/(loss), net of tax, for the financial year	**87,508**	(64,274)	**36,149**	95,955
Total comprehensive income for the financial year	**2,396,420**	1,891,766	**1,670,392**	1,530,524
Total comprehensive income attributable to:				
– Equity holders of the Bank	**2,392,716**	1,886,129	**1,670,392**	1,530,524
– NCI	**3,704**	5,637	**–**	–
	2,396,420	1,891,766	**1,670,392**	1,530,524

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2018

Group	Note	Share Capital RM'000	Statutory Reserves RM'000	Regulatory Reserves RM'000	FVOCI Reserves RM'000	Translation Reserves RM'000	Other Reserves RM'000	Retained Profits RM'000	Total Shareholders' Equity RM'000	Non-controlling Interests RM'000	Total Equity RM'000
		← Attributable to equity holders of the Bank →									
Balance as at 1 January 2018											
– As previously reported		6,994,103	513	1,797,903	275,937	628,753	23,331	13,429,174	23,149,714	34,714	23,184,428
– Effect of adoption of MFRS 9	55	–	–	(998,409)	74,850	258	–	(559,384)	(1,482,685)	(457)	(1,483,142)
– As restated		6,994,103	513	799,494	350,787	629,011	23,331	12,869,790	21,667,029	34,257	21,701,286
Net profit for the financial year		–	–	–	–	–	–	2,305,196	2,305,196	3,716	2,308,912
Foreign currency translation reserves:											
– Currency translation differences		–	–	–	(1)	56,884	–	–	56,883	(74)	56,809
– Net investment hedge		–	–	–	–	(1,620)	–	–	(1,620)	–	(1,620)
Financial assets measured at FVOCI:											
– Equity instruments											
– Unrealised net gain on revaluation		–	–	–	33,720	–	–	–	33,720	–	33,720
– Net loss on disposal		–	–	–	(608)	–	–	(832)	(1,440)	–	(1,440)
– Debt instruments											
– Unrealised net gain on revaluation		–	–	–	74,910	–	–	–	74,910	–	74,910
– Net transfer to income statements on disposal		–	–	–	(72,067)	–	–	–	(72,067)	–	(72,067)
– Changes in expected credit losses and exchange differences		–	–	–	(2,639)	–	–	–	(2,639)	–	(2,639)
Actuarial gain on defined benefit plan of subsidiaries		–	–	–	–	–	–	8,141	8,141	52	8,193
Income tax relating to components of other comprehensive (income)/loss	45	–	–	–	(7,994)	–	–	(374)	(8,368)	10	(8,358)
Other comprehensive income/(loss), net of tax, for the financial year		–	–	–	25,321	55,264	–	6,935	87,520	(12)	87,508
Total comprehensive income for the financial year		–	–	–	25,321	55,264	–	2,312,131	2,392,716	3,704	2,396,420
Dividends paid	46	–	–	–	–	–	–	(701,758)	(701,758)	–	(701,758)
Transfer from regulatory reserves		–	–	(549,807)	–	–	–	549,807	–	–	–
Balance as at 31 December 2018		6,994,103	513	249,687	376,108	684,275	23,331	15,029,970	23,357,987	37,961	23,395,948

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2018

Group	Note	Share Capital RM'000	Share Premium RM'000	Statutory Reserves RM'000	Regulatory Reserves RM'000	AFS Reserves RM'000	Translation Reserves RM'000	Other Reserves RM'000	Retained Profits RM'000	Total Shareholders' Equity RM'000	Non-controlling Interests RM'000	Total Equity RM'000
		← Attributable to equity holders of the Bank →										
Balance as at 1 January 2017		4,010,045	2,984,058	4,931,227	669,501	80,567	888,864	23,331	8,157,185	21,744,778	29,089	21,773,867
Net profit for the financial year		–	–	–	–	–	–	–	1,950,145	1,950,145	5,895	1,956,040
Foreign currency translation reserves:												
– Currency translation differences		–	–	–	–	–	(272,884)	–	–	(272,884)	(254)	(273,138)
– Net investment hedge		–	–	–	–	–	12,773	–	–	12,773	–	12,773
Financial investments AFS:												
– Unrealised net gain/(loss) on revaluation		–	–	–	–	168,722	–	–	–	168,722	(11)	168,711
– Net transfer to income statements on disposal or impairment		–	–	–	–	86,567	–	–	–	86,567	–	86,567
Actuarial gain on defined benefit plan of subsidiaries		–	–	–	–	–	–	–	882	882	9	891
Income tax relating to components of other comprehensive income	45	–	–	–	–	(59,919)	–	–	(157)	(60,076)	(2)	(60,078)
Other comprehensive income/(loss), net of tax, for the financial year		–	–	–	–	195,370	(260,111)	–	725	(64,016)	(258)	(64,274)
Total comprehensive income/(loss) for the financial year		–	–	–	–	195,370	(260,111)	–	1,950,870	1,886,129	5,637	1,891,766
Dividends paid	46	–	–	–	–	–	–	–	(481,205)	(481,205)	–	(481,205)
Transfer to share capital	32	2,984,058	(2,984,058)	–	–	–	–	–	–	–	–	–
Transfer from statutory reserves		–	–	(4,930,714)	–	–	–	–	4,930,714	–	–	–
Transfer to regulatory reserves		–	–	–	1,128,402	–	–	–	(1,128,402)	–	–	–
Accretion of interest in a subsidiary		–	–	–	–	–	–	–	12	12	(12)	–
Balance as at 31 December 2017		6,994,103	–	513	1,797,903	275,937	628,753	23,331	13,429,174	23,149,714	34,714	23,184,428

Statements of Changes in Equity

for the financial year ended 31 December 2018

		Non-distributable				Distributable	
Bank	**Note**	**Share Capital RM'000**	**Regulatory Reserves RM'000**	**FVOCI Reserves RM'000**	**Translation Reserves RM'000**	**Retained Profits RM'000**	**Total Equity RM'000**
Balance as at 1 January 2018							
– As previously reported		6,994,103	1,484,902	271,524	343,563	10,333,461	19,427,553
– Effect of adoption of MFRS 9	55	–	(762,323)	68,933	–	(400,019)	(1,093,409)
– As restated		6,994,103	722,579	340,457	343,563	9,933,442	18,334,144
Net profit for the financial year		–	–	–	–	1,634,243	1,634,243
Foreign currency translation reserves:							
– Currency translation differences		–	–	–	28,117	–	28,117
Financial assets measured at FVOCI:							
– Equity instruments							
– Unrealised net gain on revaluation		–	–	30,631	–	–	30,631
– Net loss on disposal		–	–	(584)	–	(858)	(1,442)
– Debt instruments							
– Unrealised net gain on revaluation		–	–	52,139	–	–	52,139
– Net transfer to income statements on disposal		–	–	(66,690)	–	–	(66,690)
– Changes in expected credit losses and exchange differences		–	–	(2,887)	–	–	(2,887)
Income tax relating to components of other comprehensive income	45	–	–	(3,719)	–	–	(3,719)
Other comprehensive income/(loss), net of tax, for the financial year		–	–	8,890	28,117	(858)	36,149
Total comprehensive income for the financial year		–	–	8,890	28,117	1,633,385	1,670,392
Dividends paid	46	–	–	–	–	(701,758)	(701,758)
Transfer from regulatory reserves		–	(596,349)	–	–	596,349	–
Balance as at 31 December 2018		6,994,103	126,230	349,347	371,680	11,461,418	19,302,778

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2018

		Non-distributable						Distributable	
Bank	**Note**	**Share Capital RM'000**	**Share Premium RM'000**	**Statutory Reserves RM'000**	**Regulatory Reserves RM'000**	**AFS Reserves RM'000**	**Translation Reserves RM'000**	**Retained Profits RM'000**	**Total Equity RM'000**
Balance as at 1 January 2017		4,010,045	2,984,058	3,784,558	461,870	118,843	400,289	6,618,571	18,378,234
Net profit for the financial year		–	–	–	–	–	–	1,434,569	1,434,569
Foreign currency translation reserves:									
– Currency translation differences		–	–	–	–	–	(56,726)	–	(56,726)
Financial investments AFS:									
– Unrealised net gain on revaluation		–	–	–	–	117,565	–	–	117,565
– Net transfer to income statements on disposal or impairment		–	–	–	–	86,719	–	–	86,719
Income tax relating to components of other comprehensive income	45	–	–	–	–	(51,603)	–	–	(51,603)
Other comprehensive income/(loss), net of tax, for the financial year		–	–	–	–	152,681	(56,726)	–	95,955
Total comprehensive income/(loss) for the financial year		–	–	–	–	152,681	(56,726)	1,434,569	1,530,524
Dividends paid	46	–	–	–	–	–	–	(481,205)	(481,205)
Transfer to share capital	32	2,984,058	(2,984,058)	–	–	–	–	–	–
Transfer from statutory reserves		–	–	(3,784,558)	–	–	–	3,784,558	–
Transfer to regulatory reserves		–	–	–	1,023,032	–	–	(1,023,032)	–
Balance as at 31 December 2017		6,994,103	–	–	1,484,902	271,524	343,563	10,333,461	19,427,553

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

		Group	
	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Profit before taxation		**3,119,055**	2,558,132
Adjustments for:			
Allowance for credit losses on loans, advances and financing		**593,720**	686,838
Allowance for credit losses on other financial assets		**(3,975)**	9,390
Property, plant and equipment:			
– Depreciation		**119,721**	119,342
– Loss/(Gain) on disposal		**17**	(50)
– Written off		**763**	727
Intangible assets:			
– Amortisation		**100,714**	81,009
– Written off		**28**	239
– Impairment losses written back		**–**	(336)
Impairment losses on investment in an associate		**23,000**	–
Net allowance (written back)/made on financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(12,444)**	216,006
Share of results of joint ventures		**(99)**	(391)
Net gain arising from disposal/redemption of financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(91,288)**	(95,183)
Net gain on fair value hedges		**(56)**	(115)
Net unrealised gain on revaluation of financial assets at FVTPL and derivatives		**(90,566)**	(112,278)
Net unrealised foreign exchange gain		**(47,774)**	(36,167)
Dividend income from financial assets at FVTPL and financial assets at FVOCI/financial investments AFS		**(48,315)**	(53,923)
Amortisation of premium/(Accretion of discount) for borrowings, subordinated obligations and Hybrid Tier-1 Capital Securities		**2,461**	2,221
Interest expense on borrowings, senior debt securities, Hybrid Tier-1 Capital Securities and subordinated obligations		**356,896**	440,457
Interest income from financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(1,487,417)**	(1,398,640)
Investment income from financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(308,684)**	(274,427)
Operating profit before working capital changes		**2,225,757**	2,142,851
(Increase)/Decrease in operating assets:			
Securities purchased under resale agreements		**–**	1,270,272
Deposits and placements with banks and other financial institutions		**271,195**	146,280
Financial assets at FVTPL		**(203,238)**	(140,564)
Loans, advances and financing		**(9,697,218)**	(7,137,119)
Clients' and brokers' balances		**545,481**	491,189
Other assets		**365,107**	1,720,579
Statutory deposits		**(790,956)**	209,050
		(9,509,629)	(3,440,313)

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000
Cash flows from operating activities (continued)			
Increase/(Decrease) in operating liabilities:			
Deposits from customers		**13,077,118**	1,127,853
Deposits and placements of banks and other financial institutions		**(3,497,147)**	(861,868)
Obligations on securities sold under repurchase agreements		**1,590,161**	243,050
Bills and acceptances payable		**1,155**	(173,237)
Clients' and brokers' balances		**(527,613)**	(373,847)
Other liabilities		**(835,292)**	820,835
Recourse obligation on loans sold to Cagamas		**3,536,510**	(1,824,447)
		13,344,892	(1,041,661)
Cash generated from/(used in) operations		**6,061,020**	(2,339,123)
Interest paid		**(346,899)**	(449,329)
Net tax paid		**(756,037)**	(472,895)
Net cash generated from/(used in) operating activities		**4,958,084**	(3,261,347)
Cash flows from investing activities			
Net (purchase)/proceeds from disposal of financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(3,003,223)**	1,520,951
Property, plant and equipment:			
– Purchase		**(113,765)**	(105,103)
– Proceeds from disposal		**195**	143
Intangible assets:			
– Purchase		**(207,015)**	(176,490)
Financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM:			
– Interest received		**1,394,727**	1,382,256
– Investment income received		**254,931**	261,034
Dividend income received from financial assets at FVTPL and financial assets at FVOCI/financial investments AFS		**48,315**	53,923
Net cash (used in)/generated from investing activities		**(1,625,835)**	2,936,714
Cash flows from financing activities			
Drawdown of borrowings		**4,178,437**	2,475,972
Repayment of borrowings		**(4,179,812)**	(2,227,672)
Proceeds from issuance of subordinated notes		**–**	1,200,000
Redemption of subordinated notes		**–**	(2,995,000)
Redemption of senior debt securities		**–**	(2,173,766)
Dividends paid to equity holders of the Bank		**(701,758)**	(481,205)
Net cash used in financing activities		**(703,133)**	(4,201,671)

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000
Net increase/(decrease) in cash and cash equivalents		**2,629,116**	(4,526,304)
Effects of exchange rate differences		**12,926**	(204,761)
Cash and cash equivalents:			
– at the beginning of the financial year		**9,911,146**	14,682,943
– at the end of the financial year		**12,553,188**	9,951,878
Cash and cash equivalents comprise the following:			
– Cash and short term funds	2	**12,553,188**	9,951,878

	Balance as at the beginning of the financial year RM'000	Cash Changes: Net cash flow from financing activities RM'000	Cash Changes: Net cash flow from operating activities RM'000	Non-Cash Changes: Foreign exchange movement RM'000	Non-Cash Changes: Accrued interest RM'000	Non-Cash Changes: Amortisation/ (Accretion) RM'000	Balance as at the end of the financial year RM'000
2018							
Borrowings	**1,153,719**	**(1,375)**	**(29,049)**	**21,472**	**38,118**	**–**	**1,182,885**
Senior debt securities	**3,252,581**	**–**	**(89,619)**	**68,610**	**90,064**	**2,028**	**3,323,664**
Hybrid Tier-1 Capital Securities	**602,666**	**–**	**(45,098)**	**–**	**45,220**	**433**	**603,221**
Subordinated obligations	**3,748,294**	**–**	**(183,133)**	**–**	**183,494**	**–**	**3,748,655**
	8,757,260	**(1,375)**	**(346,899)**	**90,082**	**356,896**	**2,461**	**8,858,425**
2017							
Borrowings	972,030	248,300	(19,764)	(67,283)	20,436	–	1,153,719
Senior debt securities	5,856,389	(2,173,766)	(130,039)	(422,260)	120,906	1,351	3,252,581
Hybrid Tier-1 Capital Securities	602,143	–	(45,063)	–	45,186	400	602,666
Subordinated obligations	5,543,358	(1,795,000)	(254,463)	–	253,929	470	3,748,294
	12,973,920	(3,720,466)	(449,329)	(489,543)	440,457	2,221	8,757,260

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

		Bank	
	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Profit before taxation		**2,235,717**	1,849,243
Adjustments for:			
Allowance for credit losses on loans, advances and financing		**441,823**	514,421
Allowance for credit losses on other financial assets		**935**	–
Property, plant and equipment:			
– Depreciation		**91,556**	84,729
– Gain on disposal		**(71)**	(18)
– Written off		**10**	114
Intangible assets:			
– Amortisation		**81,998**	62,664
– Written off		**–**	239
Net allowance (written back)/made on financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(14,487)**	214,219
Net gain arising from disposal/redemption of financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(83,309)**	(36,255)
Net gain on fair value hedges		**(56)**	(115)
Net unrealised gain on revaluation of financial assets at FVTPL and derivatives		**(31,670)**	(25,783)
Net unrealised foreign exchange loss/(gain)		**79,558**	(83,001)
Dividend income from financial assets at FVOCI/financial investments AFS		**(2,656)**	(6,515)
Dividend income from subsidiaries		**(9,259)**	(97,075)
Amortisation of premium/(Accretion of discount) for borrowings, subordinated obligations and Hybrid Tier-1 Capital Securities		**2,461**	2,221
Interest expense on borrowings, senior debt securities, Hybrid Tier-1 Capital Securities and subordinated obligations		**292,520**	377,418
Interest income from financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(1,410,046)**	(1,325,812)
Operating profit before working capital changes		**1,675,024**	1,530,694
(Increase)/Decrease in operating assets:			
Securities purchased under resale agreements		**–**	1,257,914
Deposits and placements with banks and other financial institutions		**284,460**	(1,636,510)
Financial assets at FVTPL		**(75,256)**	313,702
Loans, advances and financing		**(287,358)**	1,586,098
Other assets		**605,011**	2,362,562
Statutory deposits		**(440,431)**	286,669
		86,426	4,170,435
Increase/(Decrease) in operating liabilities:			
Deposits from customers		**6,376,021**	(6,377,437)
Deposits and placements of banks and other financial institutions		**(5,024,427)**	(143,922)
Obligations on securities sold under repurchase agreements		**1,532,470**	(1,127,084)
Bills and acceptances payable		**(39,281)**	1,345
Other liabilities		**(924,525)**	(1,154,750)
Recourse obligation on loans sold to Cagamas		**1,266,271**	(1,009,205)
		3,186,529	(9,811,053)

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

	Note	Bank 2018 RM'000	Bank 2017 RM'000
Cash flows from operating activities (continued)			
Cash generated from/(used in) operations		**4,947,979**	(4,109,924)
Interest paid		**(282,453)**	(390,164)
Net tax paid		**(581,093)**	(273,408)
Net cash generated from/(used in) operating activities		**4,084,433**	(4,773,496)
Cash flows from investing activities			
Net (purchase)/proceeds from disposal of financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM		**(2,861,030)**	2,484,657
Property, plant and equipment:			
– Purchase		**(93,302)**	(80,881)
– Proceeds from disposal		**99**	104
Intangible assets:			
– Purchase		**(189,577)**	(148,414)
Interest received from financial assets at FVOCI and financial investments at amortised cost/ financial investments AFS and HTM		**1,340,677**	1,307,474
Dividend income received from financial assets at FVOCI/financial investments AFS		**2,656**	6,515
Dividend income received from subsidiaries		**97,959**	2,375
Capital reduction in subsidiaries		**–**	862,523
Additional investments in subsidiaries		**(415,823)**	(17,701)
Net cash (used in)/generated from investing activities		**(2,118,341)**	4,416,652
Cash flows from financing activities			
Drawdown of borrowings		**206,617**	606,983
Repayment of borrowings		**(217,462)**	(277,195)
Proceeds from issuance of subordinated notes		**–**	750,000
Redemption of subordinated notes		**–**	(2,750,000)
Redemption of senior debt securities		**–**	(2,173,766)
Dividends paid to equity holders of the Bank		**(701,758)**	(481,205)
Net cash used in financing activities		**(712,603)**	(4,325,183)
Net increase/(decrease) in cash and cash equivalents		**1,253,489**	(4,682,027)
Effects of exchange rate differences		**31,630**	(133,580)
Cash and cash equivalents:			
– at the beginning of the financial year		**7,570,207**	12,430,270
– at the end of the financial year		**8,855,326**	7,614,663
Cash and cash equivalents comprise the following:			
– Cash and short term funds	2	**8,855,326**	7,614,663

The accompanying accounting policies and notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

	Balance as at the beginning of the financial year RM'000	Cash Changes: Net cash flow from financing activities RM'000	Cash Changes: Net cash flow from operating activities RM'000	Non-Cash Changes: Foreign exchange movement RM'000	Non-Cash Changes: Accrued interest RM'000	Non-Cash Changes: Amortisation/ (Accretion) RM'000	Balance as at the end of the financial year RM'000
2018							
Borrowings	**978,068**	**(10,845)**	**(20,984)**	**5,556**	**30,054**	**–**	**981,849**
Senior debt securities	**3,252,581**	**–**	**(89,619)**	**68,610**	**90,064**	**2,028**	**3,323,664**
Hybrid Tier-1 Capital Securities	**607,678**	**–**	**(45,434)**	**–**	**45,558**	**433**	**608,235**
Subordinated obligations	**2,588,638**	**–**	**(126,416)**	**–**	**126,844**	**–**	**2,589,066**
	7,426,965	**(10,845)**	**(282,453)**	**74,166**	**292,520**	**2,461**	**7,502,814**
2017							
Borrowings	698,651	329,788	(11,720)	(51,043)	12,392	–	978,068
Senior debt securities	5,856,389	(2,173,766)	(130,039)	(422,260)	120,906	1,351	3,252,581
Hybrid Tier-1 Capital Securities	607,155	–	(45,402)	–	45,525	400	607,678
Subordinated obligations	4,592,576	(2,000,000)	(203,003)	–	198,595	470	2,588,638
	11,754,771	(3,843,978)	(390,164)	(473,303)	377,418	2,221	7,426,965

The accompanying accounting policies and notes form an integral part of these financial statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards ('IFRS') and the requirements of the Companies Act 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The financial statements also incorporate those activities relating to Islamic banking which have been undertaken by the Group and the Bank. Islamic banking refers generally to the acceptance of deposits, granting of financing and dealing in Islamic securities under the Shariah principles.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group and the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section (B).

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Group and the Bank's financial year beginning on or after 1 January 2018 are as follows:

(i) Annual Improvements to MFRS 2014-2016 Cycle

- Amendments to MFRS 128 'Investments in Associates and Joint Ventures'

  The amendments allow:

  - venture capital organisations, mutual funds, unit trusts and similar entities to elect, on an individual basis, measuring their investments in associates and joint ventures at fair value through profit or loss.
  - an entity that is not an investment entity to retain the fair value measurement applied by its associates or joint ventures (that are investment entities) when applying equity method.

The adoption of the Annual Improvements to MFRS 2014-2016 Cycle did not have any material financial impact on the financial statements of the Group and of the Bank.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective (continued)

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Group and the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(ii) Amendments to MFRS 4 'Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts'

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:

- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach.

Both approaches are optional.

The insurance subsidiary of the Bank has adopted MFRS 9 in line with the Group and the Bank effective 1 January 2018.

(iii) IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

This Interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

The adoption of the IC Interpretation 22 did not have any material financial impact on the financial statements of the Group and of the Bank.

(iv) MFRS 9 'Financial Instruments'

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective (continued)

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Group and the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(iv) MFRS 9 'Financial Instruments' (continued)

MFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Group and the Bank have applied MFRS 9 retrospectively with date of initial application of 1 January 2018.

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 55 to the financial statements.

(v) MFRS 15 'Revenue from Contracts with Customers'

The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

MFRS 15 is based on the principle that revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective (continued)

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Group and the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(v) MFRS 15 'Revenue from Contracts with Customers' (continued)

When there are multiple goods or services bundled in a single arrangement, MFRS 15 requires an entity to apply the revenue recognition principles separately to each good or service that is distinct. The contract consideration is allocated to each of the distinct good or service based on the price an entity would charge a customer on a stand-alone basis for each good or service. If a stand-alone selling price is not directly observable, an entity will need to estimate by considering all information that is reasonably available to the entity. The point at which revenue is recognised for each distinct good or service may vary depending on when control of each good or service is transferred to the customer.

MFRS 15 requires an estimate of variable consideration to be recognised as revenue when performance obligations are satisfied if it is highly probable that the amount will not result in a significant revenue reversal if estimates change. Transaction price should be adjusted for the time value of money if the contract includes a significant financing component.

MFRS 15 prescribes specific disclosure requirements in the following areas to help entities meet the disclosure objective:

- qualitative and quantitative information about contracts with customers;
- significant judgements made by management in applying MFRS 15; and
- asset recognised on costs incurred to obtain or fulfil a contract with customer.

MFRS 15 permits either a full retrospective or a modified approach for the adoption. The Group and the Bank have adopted the modified approach under MFRS 15.

Under the modified retrospective transition method, the Group and the Bank apply the new policy retrospectively only to contracts that are not completed at the date of initial application. Accordingly, the 2017 comparative information was not restated as the financial impact is not material to the Group and the Bank, and cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective

(i) Annual Improvements to MFRS 2015-2017 Cycle – effective 1 January 2019

- Amendments to MFRS 3 'Business Combinations' clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(i) Annual Improvements to MFRS 2015-2017 Cycle – effective 1 January 2019 (continued)

- Amendments to MFRS 11 'Joint Arrangements' clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.
- Amendments to MFRS 112 'Income Taxes' clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statements, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statements when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
- Amendments to MFRS 123 'Borrowing Costs' clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation' – effective 1 January 2019

The amendments allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

(iii) Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures' – effective 1 January 2019

The amendments clarify that an entity should apply MFRS 9 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future.

In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

The amendments shall be applied retrospectively.

(iv) MFRS 16 'Leases' – effective 1 January 2019

MFRS 16 supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments for most leases.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(iv) MFRS 16 'Leases' – effective 1 January 2019 (continued)

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in income statements.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

(v) IC Interpretation 23 'Uncertainty over Income Tax Treatments' – effective 1 January 2019

IC Interpretation 23 provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

(vi) Amendments to MFRS 119 'Plan Amendment, Curtailment or Settlement' – effective 1 January 2019

The amendments requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

(vii) MFRS 17 'Insurance Contracts' – effective 1 January 2021

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 'Revenue'. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that are related to financial risks either in income statements or in other comprehensive income.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(vii) MFRS 17 'Insurance Contracts' – effective 1 January 2021 (continued)

Alternative measurement models are provided for the different insurance coverages:

- Simplified Premium Allocation Approach if the insurance coverage period is a year or less; or
- Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards are not expected to give rise to any material financial impact to the Group and the Bank, except for the adoption of:

(i) MFRS 16 – The Group and the Bank will apply this standard from its mandatory adoption date of 1 January 2019. The Group and the Bank intend to apply the simplified transitional approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Group and the Bank have non-cancellable operating lease commitments of RM168,632,000 and RM85,197,000 respectively as disclosed in Note 48 to the financial statements. Of these commitments, short term leases and low value leases will both be recognised on a straight-line basis as expense in the income statements.

For the remaining lease commitments, the Group and the Bank expect to recognise right-of-use assets on 1 January 2019, lease liabilities discounted to its present value after adjustments for prepayments and accrued lease payments as at 31 December 2018 and deferred tax assets.

(ii) MFRS 17 – of which the cumulative impact upon adoption will be recognised in the retained earnings as at 1 January 2021, and with enhanced disclosures.

(c) Changes in regulatory requirements

(i) Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks

The Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks in relation to Basel II – Risk-Weighted Assets and Capital Components were updated and reissued by Bank Negara Malaysia ('BNM') on 2 February 2018 for application with effect from 1 January 2018.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Changes in regulatory requirements (continued)

(i) Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (continued)

The updates focused mainly on the following changes:

- Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9 'Financial Instruments';
- Definition of General Provision and its recognition in Tier II capital;
- Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

(ii) Financial Reporting and Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM issued the revised policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions which prescribes the regulatory reserves to be maintained by banking institutions.

With effect from 1 January 2018, the Bank and its domestic banking subsidiaries must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

In the previous year, the Group and the Bank have maintained, in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of impairment allowances.

The effect of this change is as disclosed in Note 55 to the financial statements.

(2) BASIS OF CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

(i) Acquisition accounting

The Group applies the acquisition method to account for business combination. The consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) BASIS OF CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

(i) Acquisition accounting (continued)

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group or Bank. Non-controlling interest is measured either at fair value or proportionate share of the acquiree's identifiable net assets at the acquisition date, determined on a case by case basis. At the end of a reporting period, non-controlling interest consists of the amount calculated on the date of combination and its share of changes in the subsidiary's equity since the date of combination.

Acquisition-related costs are expensed as incurred.

In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and the resulting gain or loss is recognised in income statements.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in income statements or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the gain is recognised in income statements. Refer to accounting policy Note 7 on goodwill.

(ii) Predecessor accounting

The Group and the Bank apply predecessor accounting to account for business combinations under common control. Under the predecessor accounting, assets and liabilities acquired are not restated to their respective fair values but at the carrying amounts from the consolidated financial statements of the ultimate holding company of the Group and adjusted to ensure uniform accounting policies of the Group. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to retained earnings. No additional goodwill is recognised.

The acquired entity's results, assets and liabilities are consolidated as if both the acquirer and acquiree had always been combined. Consequently, the consolidated financial statements reflect both entities' full year results. The corresponding amounts for the previous year are restated to reflect the combined results of both entities.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attributed to non-controlling interest for prior years is not restated.

All material inter-company and intra-group transactions and balances are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) BASIS OF CONSOLIDATION (CONTINUED)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity attributable to owners of the Group.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit and loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statements.

Gain or loss on disposal of subsidiaries included the carrying amount of goodwill relating to subsidiaries sold.

(d) Joint ventures

A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement. The Group's interest in a joint venture is accounted for in the financial statements by the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses in income statements and the Group's share of movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to equity account its joint venture because of a loss of joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in income statements. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statements.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to income statements where appropriate.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) BASIS OF CONSOLIDATION (CONTINUED)

(e) Associates

Associates are those corporations or other entities in which the Group exercises significant influence, but which it does not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policies through representation on the Board but not power to exercise control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. Equity accounting involves recognising the Group's share of its associates' post-acquisition profits or losses in income statements, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of investment and include goodwill on acquisition, less accumulated impairment loss.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its amount.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its shares of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Dilution gains and losses arising in investments in associates are recognised in the income statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method of accounting, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

(f) Puttable Instrument

Financial liabilities due to third party investors relate to the net asset value of units (puttable instruments) held by the third party investors of investment funds, and measured at fair value as at year end. This arises in accordance with MFRS 10 where the financial statements of investment funds is required to be consolidated to the financial statements of the Group and recorded as a financial liability in Note 26 to the financial statements.

(3) INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In the Bank's separate financial statements, investments in subsidiaries, associates and joint ventures are stated at cost less accumulated impairment losses. At the end of each reporting period, the Group and the Bank assess whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Refer to accounting policy Note 20 on impairment of non-financial assets.

On disposal of investments in subsidiaries, associates and joint ventures, the difference between disposal proceeds and the carrying amount of the investments is recognised in income statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS

(a) Classification and measurement of financial assets

With effect from 1 January 2018, the Group and the Bank have applied MFRS 9 and classify its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ('FVOCI')
- Fair value through profit or loss ('FVTPL')

At initial recognition, the Group and the Bank measure a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statements.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The classification requirements for debt and equity instruments are described as below:

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Group and the Bank's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Group and the Bank classify their debt instruments into one of the following three measurement categories:

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statements. The interest income is recognised into income statements using the effective interest rate method. Upon derecognition, any gain or loss will be recognised in income statements and presented under 'other operating income'.

(2) Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, are measured at FVOCI. Changes in the fair value of these assets are recognised in other comprehensive income ('OCI'), except for recognition of interest, foreign exchange gains or losses and expected credit losses which are recognised in income statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(a) Classification and measurement of financial assets (continued)

(i) Debt instruments (continued)

(2) Financial assets at FVOCI (continued)

When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to income statements and recognised in 'other operating income'. The interest income is recognised into income statements using the effective interest rate method. Foreign exchange gains or losses are recognised in 'other operating income' and impairment credit losses are presented separately under 'allowance for credit losses'.

(3) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statements within 'net gain/(loss) arising from financial assets FVTPL' in the period in which it arises. The interest income is recognised into income statements using the effective interest rate method.

(ii) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Group and the Bank subsequently measure all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument at FVOCI. The Group and the Bank's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statements, including on disposal. Dividend, when representing a return on such investments, continue to be recognised in income statements as dividend income when the Group and the Bank's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the 'net gain/(loss) arising from financial assets FVTPL' in the income statements.

(b) Reclassification policy

Reclassification of financial assets is required when, and only when, the Group and the Bank change their business model for managing the assets. In such cases, the Group and the Bank are required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(c) Recognition, initial measurement and derecognition

Regular purchases and sales of financial assets are recognised on the trade date on which the Group and the Bank committed to purchase or sell the assets at trade-date. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Bank have transferred substantially all the risks and rewards of ownership.

(d) Impairment

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

There are two approaches adopted by the Group and the Bank:

(1) General approach

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Group and the Bank consider the following as constituting an event of default:

(1) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Group and the Bank.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

(1) General approach (continued)

(iii) Stage 3: Lifetime ECL – credit impaired (continued)

(2) Qualitative criteria

- Legal action has been initiated by the Group and the Bank for recovery purposes;
- Borrower is a bankrupt;
- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Significant increase in credit risk ('SICR')

(1) The Group and the Bank consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and the Bank compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). Certain ECL models are leveraging on the existing Group and the Bank's Basel II Internal Ratings-Based ('IRB') model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements. The changes in ECL between two-periods will be recognised in income statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's and the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statements.

The Group and the Bank leverage on the model/segments/credit related factors implemented under the Basel II IRB framework where feasible or available, with calibration to meet MFRS 9 requirements. For portfolio without Basel model, other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates, a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures is more than 30 days past due on its contractual payments.

(2) Simplified approach

The Group and the Bank apply the MFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for clients' and brokers' balances, fee and premium receivables. The expected loss allowance is based on provisional matrix.

(e) Accounting policies prior to 1 January 2018

(i) Classification

The Group and the Bank classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also classified in this category unless they are designated as hedges. Refer to accounting policy Note 6 on hedge accounting.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018 (continued)

(i) Classification (continued)

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(3) Financial investments AFS

Financial investments AFS are non-derivatives that are either designated in this category or not classified in any of the other categories.

(4) Financial investments HTM

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank's management has the positive intention and ability to hold to maturity. If the Group and the Bank were to sell other than an insignificant amount of financial investments HTM, the whole category would be tainted and reclassified as financial investments AFS.

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date on which the Group and the Bank purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statements.

(iii) Subsequent measurement – gain and loss

Financial investments AFS and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial investments HTM are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in other operating income in income statements in the period in which the changes arise.

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in income statements, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on financial investments AFS are recognised separately in income statements. Interest on financial investments AFS calculated using the effective interest method is recognised in income statements. Dividend income on financial investments AFS is recognised in other operating income in income statements when the Group and the Bank's right to receive payment is established.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018 (continued)

(iv) Impairment

The Group and the Bank assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group and the Bank could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in income statements.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss which was measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statements, was removed from equity and recognised in income statements.

Impairment losses on equity instruments that were recognised in income statements were not reversed through income statements in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in income statements, the impairment loss was reversed through income statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) FINANCIAL ASSETS (CONTINUED)

(f) De-recognition

Financial assets, or a portion thereof, are de-recognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group and the Bank transfer substantially all the risks and rewards of ownership, or (ii) the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Group and the Bank have not retained control.

The Group and the Bank enter into transactions where they retain the contractual rights to receive cash flows from assets but assume a contractual obligation to pay those cash flows to other entities and transfer substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in de-recognition if the Group and the Bank:

(i) Have no obligation to make payments unless they collect equivalent amounts from the assets;

(ii) Are prohibited from selling or pledging the assets; and

(iii) Have an obligation to remit any cash they collect from the assets without material delay.

Collateral (shares and bonds) furnished by the Group and the Bank under standard repurchase agreements and securities lending and borrowing transactions are not de-recognised because the Group and the Bank retain substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

Loans and receivables that are factored out to banks and other financial institutions with recourse to the Group and the Bank are not de-recognised until the recourse period has expired and the risks and rewards of loans and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount will be presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(5) REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Group and the Bank have purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statements of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as interest income and interest expense respectively on an effective yield method.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group and the Bank have elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group and the Bank recognise profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group and the Bank designate certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group and the Bank document, at the inception of the hedge, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group and the Bank also document their assessment, both at hedge inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statements, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statements over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(b) Cash flow hedge (continued)

Amounts accumulated in equity are recycled to the income statements in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statements.

(c) Net investment hedge

Net investment hedge is a hedge against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations/subsidiaries. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in the income statements. On disposal of the foreign operations/subsidiaries, the cumulative value of any such gains or losses recognised in equity is transferred to the income statements.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statements.

(7) GOODWILL

Goodwill arising on the acquisition of subsidiaries represents the excess of consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree.

Goodwill is stated at cost less accumulated impairment loss and is tested at least annually for impairment. Impairment loss on goodwill (inclusive of impairment losses recognised in a previous interim period) is not reversed. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Refer to accounting policy Note 20 on impairment of non-financial assets.

Goodwill is allocated to Cash-Generating-Units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) INTANGIBLE ASSETS

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licenses and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group and the Bank have a definite useful life. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exists, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired. Refer to accounting policy Note 20 on impairment of non-financial assets.

(a) Computer software licenses

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 3 to 10 years.

(b) Other intangible assets

Other intangible assets consist of customer relationship, brands, trading rights and membership. Other intangible assets are initially recognised when they are separable or arose from contractual or other legal rights, and when the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, it is recognised where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

Other intangible assets with definite life are stated at cost less amortisation and allowance for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over the following useful lives:

Customer relationship	10 years
Brand	3-10 years

(9) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statements during the financial period in which they are incurred.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

Freehold land, buildings in progress and renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Leasehold land	Amortised over the period of the lease*
Buildings	2% to 3.33%
Renovations and improvements	10% to 11%
Computer equipment	14.28% to 33.33%
Furniture, fittings and equipment	10% to 20%
Motor vehicles	20%
Computer software	10% to 33.33%

* The remaining period of the lease ranges from 3 to 865 years.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amounts and are included in other operating income in income statements.

At the end of the reporting period, the Group and the Bank assess whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 20 on impairment of non-financial assets.

(10) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statements. Financial liabilities are de-recognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Refer to accounting policy Note 6 on hedge accounting.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) FINANCIAL LIABILITIES (CONTINUED)

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are remeasured at amortised cost using the effective interest rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements, bills and acceptances payable, clients' and brokers' balances, recourse obligation on loans sold to Cagamas and other financial liabilities.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in income statements over the period of the borrowings using the effective interest method.

All other borrowing costs are recognised in income statements in the period in which they are incurred.

Borrowings measured at amortised cost are long term and short term borrowings from financial institutions, subordinated obligations, senior debt securities and Hybrid Tier-1 Capital Securities.

(11) RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS

In the normal course of banking operations, the Group and the Bank sell loans to Cagamas but undertake to administer the loans on behalf of Cagamas and to buy back any loans which are regarded as defective. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the statements of financial position and accounted for in accordance with accounting policy Note 10(b).

(12) LEASES – WHERE THE GROUP IS LESSEE

(a) Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statements on a straight-line basis over the period of the lease.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term.

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) LEASES – WHERE THE GROUP IS LESSEE (CONTINUED)

(b) Finance lease

Leases of assets where the Group and the Bank assume substantially all the risks and rewards of ownership of the assets are classified as finance leases. The assets are capitalised under property, plant and equipment and subject to depreciation consistent with that of depreciable assets which are owned. The assets and the corresponding lease obligations are recorded at the lower of present value of the minimum lease payments and the fair value of the leased assets at the beginning of the lease term. Each lease payment is allocated between the liability and finance charges using effective yield basis. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance charges is charged to income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

(13) LEASES – WHERE THE GROUP IS LESSOR

(a) Operating lease

When assets are leased out under an operating lease, the asset is included in the statements of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

(b) Finance lease

When assets are leased out under a finance lease, the present value of the lease payment is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the 'net investment' method so as to reflect a constant periodic rate of return.

(14) PROVISIONS

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Group and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Group or the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of issuance is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Accounting policy from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial Instruments' (refer to accounting policy Note 4(d)) and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Group and the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

Accounting policy prior to 1 January 2018

Financial guarantee contracts are subsequently measured at the highest of the amount determined in accordance with MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where applicable.

(16) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and the Bank do not recognise contingent assets and liabilities other than those arising from business combinations, but disclose their existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

The Group recognises separately the contingent liabilities of the acquiree as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions and the information about the contingent liabilities acquired are disclosed in the financial statements.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less when appropriate, cumulative amortisation recognised in accordance with MFRS 15 'Revenue from Contracts with Customers'.

(17) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

(18) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of one month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(19) REVENUE RECOGNITION

(a) Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial asset that subsequently becomes credit-impaired. For credit-impaired financial asset, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) REVENUE RECOGNITION (CONTINUED)

(b) Fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees for loans, advances and financing that are likely to be drawdown are deferred (together with related direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate of the financial instrument.

(c) Income from Islamic Banking business is recognised using effective profit method in accordance with the principles of Shariah.

(d) Brokerage commission is recognised when services are rendered. Interest income from margin financing, clients' overdue outstanding purposes and contra losses are recognised using effective interest method.

(e) Premium income from general insurance business (net of all reinsurance) is recognised on the date of assumption of risks. Premium in respect of risk incepted, for which policies have not been raised as at the date of statements of financial position, is accrued at that date.

Premiums, claims and other transactions of inward treaty business are accounted for in the income statements as and when the statements of account are received. Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

(f) Corporate advisory fees are recognised as income based on fulfilment of the performance obligation.

(g) Management fees of the unit trust and asset management company are recognised based on time apportionment method over the period of services.

(h) Dividends are recognised when the shareholders' right to receive payment is established. This applies even if they are paid out of the pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence. Dividend income received from subsidiaries, financial assets FVTPL and at FVOCI are recognised as other operating income in income statements.

From 1 January 2018 onwards, dividend that clearly represents a recovery of part of the cost of an investment is recognised in other comprehensive income if it relates to an investment in equity investment measured at fair value through other comprehensive income.

(i) Income from bancassurance/bancatakaful agreements are recognised based on time apportionment method throughout the exclusive services agreement period.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows or CGU. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to income statements. Impairment losses on goodwill are not reversed. In respect of other non-financial assets, any subsequent increase in recoverable amount is recognised in income statements.

(21) GENERAL INSURANCE

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the insurance subsidiary (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

(a) Premium income

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the date of statements of financial position, are accrued at the date.

Premiums, claims and other transactions of inward treaty business are accounted for in the income statements as and when the statements of account are received.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

(b) Premium liabilities

Premium liabilities refer to the higher of:

(i) The aggregate of the unearned premium reserves; or

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) GENERAL INSURANCE (CONTINUED)

(b) Premium liabilities (continued)

(ii) The best estimate value of the insurer's unexpired risk reserves at the valuation date and the Provision of Risk Margin for Adverse Deviation ('PRAD') calculated at the overall insurance subsidiary. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

Unearned premium reserves ('UPR') represent the portion of premium income not yet earned at the date of statements of financial position. UPR is computed with reference to the month of accounting for the premium on the following basis:

(i) 25% method for marine and aviation cargo, and transit business;

(ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and

(iii) Time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

(c) Claim liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of claims liabilities is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligations at the date of statements of financial position. These include provision for claims reported, claims incurred but not reported, claims incurred but not enough reserved and direct and indirect claims-related expenses such as investigation fees, loss adjustment fees, legal fees, sue and labour charges and the expected internal costs that the insurer expects to incur when settling these claims.

(d) Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

(e) Reinsurance

The insurance subsidiary cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the insurance subsidiary from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) GENERAL INSURANCE (CONTINUED)

(e) Reinsurance (continued)

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the insurance subsidiary may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the insurance subsidiary will receive from the reinsurer. The impairment loss is recorded in income statements.

Gains or losses on buying reinsurance are recognised in income statements immediately at the date of purchase and are not amortised.

The insurance subsidiary also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statements of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

(f) Insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise claims liabilities and premium liabilities.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of statements of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statements of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled. The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) GENERAL INSURANCE (CONTINUED)

(f) Insurance contract liabilities (continued)

At each reporting date, the insurance subsidiary reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in income statements by setting up a provision for liability adequacy.

(22) EMPLOYEE BENEFITS

(a) Short term employee benefits

The Group and the Bank recognise a liability and an expense for bonuses. The Group and the Bank recognise a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions to the national pension scheme, the Employees' Provident Fund. The Group's and the Bank's contributions to defined contribution plans are charged to income statements in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further legal or constructive obligations.

(c) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(23) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operate and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries, associates and joint ventures and arising from distributions of retained profits to companies in the Group.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(23) CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(24) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in income statements within other operating income.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(24) CURRENCY CONVERSION AND TRANSLATION (CONTINUED)

(b) Transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as debt instruments under fair value through other comprehensive income (2017: available for sale) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statements, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statements as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as at fair value through other comprehensive income (2017: available for sale), are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of that statements of financial position;

(ii) Income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions); and

(iii) All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, a proportionate share of such exchange differences is recognised in income statements as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The Group has determined its Group Management Committee as its chief operating decision-maker.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are outlined below:

(1) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group and the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Group and the Bank use a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group and the Bank recognise the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

The valuation techniques are further disclosed in Note 53(g)(i) to the financial statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(2) Allowance for expected credit losses ('ECL')

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, private consumption, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

(iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

(iv) Establishing groups of similar financial assets for the purposes of measuring ECL.

The sensitivity effect on the macroeconomic factor is further disclosed in Note 53(e)(viii) to the financial statements.

(3) Goodwill impairment

Goodwill is tested at least annually for impairment. Testing of goodwill for impairment involves a significant amount of estimation. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. Estimating the value in use requires the Group and the Bank to make an estimate of the expected future cash flows from the CGU. Determining both the expected pre-tax cash flows and the risk adjusted discount rate appropriate to the CGU also require the exercise of judgement. The variables are subject to fluctuations in external market rates and economic conditions beyond management control and are subject to uncertainty and require the exercise of significant judgement. The detailed disclosures on the assessment of impairment of goodwill is disclosed in Note 19 to the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

1 GENERAL INFORMATION

RHB Bank Berhad is a public limited company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The principal activities of the Bank are commercial banking and finance related business and the provision of related services. The Group is involved in commercial banking and finance related business, Islamic banking, investment banking, stock broking, leasing, offshore banking, offshore trust services, property investment, general insurance, unit trust management, asset management, nominee and custodian services.

There have been no significant changes in these principal activities during the financial year.

The address of the registered office of the Bank is Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2019.

2 CASH AND SHORT TERM FUNDS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cash and balances with banks and other financial institutions	**3,875,207**	3,266,695	**1,983,837**	1,963,941
Money at call and deposit placements maturing within one month	**8,677,981**	6,685,183	**6,871,489**	5,650,722
	12,553,188	9,951,878	**8,855,326**	7,614,663

Included in the cash and short term funds of the Group are accounts held in trust for remisiers amounting to RM62,917,000 (2017: RM62,902,000).

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Licensed banks	**898,120**	729,004	**1,290,958**	1,301,499
Licensed Islamic banks	**–**	432,597	**8,965,652**	8,218,076
Licensed investment banks	**–**	–	**734,187**	1,755,530
	898,120	1,161,601	**10,990,797**	11,275,105

Notes to the Financial Statements

for the financial year ended 31 December 2018

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Mandatory measured at fair value				
MONEY MARKET INSTRUMENTS:				
Malaysian Government Securities	**745,056**	263,769	**745,056**	263,769
Malaysian Government Treasury Bills	**24,411**	16,559	**24,411**	16,559
Malaysian Government Investment Issues	**813,898**	548,495	**539,672**	375,959
Bank Negara Malaysia Monetary Notes	**24,873**	–	**24,873**	–
Cagamas bonds	**–**	20,198	**–**	20,198
QUOTED SECURITIES:				
In Malaysia				
Shares, exchanged traded funds and warrants	**111,544**	257,230	**–**	–
Unit trusts	**67,553**	81,772	**–**	–
Corporate bond/sukuk	**13,704**	3,235	**3,179**	3,235
Outside Malaysia				
Shares, exchanged traded funds and warrants	**227,837**	255,172	**5,294**	–
UNQUOTED SECURITIES:				
In Malaysia				
Corporate bond/sukuk	**277,460**	5,028	**277,460**	5,006
Unit trusts	**785,212**	609,672	**–**	–
Outside Malaysia				
Corporate bond/sukuk	**271,826**	143,280	**271,826**	143,280
Private equity funds	**437,275**	359,859	**–**	–
	3,800,649	2,564,269	**1,891,771**	828,006

Notes to the Financial Statements
for the financial year ended 31 December 2018

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS')

	Group 2017 RM'000	Bank 2017 RM'000
At fair value		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Securities	1,377,296	1,238,204
Malaysian Government Investment Issues	3,310,678	2,521,291
Cagamas bonds	238,437	207,952
Khazanah bonds	50,785	–
Wakala Global Sukuk	94,532	94,532
Negotiable instruments of deposits	121,436	121,436
Singapore Government Treasury Bills	935,009	935,009
Singapore Government Securities	1,348,580	1,348,580
Thailand Government bonds	734,094	734,094
Sukuk Perumahan Kerajaan	147,857	78,382
Malaysia Sovereign Sukuk	51,977	51,977
QUOTED SECURITIES:		
In Malaysia		
Shares	3,506	–
Unit trusts	14,934	–
Outside Malaysia		
Shares	7,568	4,072
Unit trusts	41,530	–
UNQUOTED SECURITIES:		
In Malaysia		
Corporate bond/sukuk	13,319,105	10,323,291
Shares	658,245	623,253
Corporate loan stocks	19,689	19,689
Prasarana bonds	1,051,682	1,026,294
Perpetual notes/sukuk	388,059	187,440
Outside Malaysia		
Corporate bond/sukuk	2,408,955	2,408,955
Shares	390	–
	26,324,344	21,924,451
Accumulated impairment losses	(507,728)	(496,796)
	25,816,616	21,427,655

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS') (CONTINUED)

	Group 2017 RM'000	Bank 2017 RM'000
Movements in allowance for impairment losses:		
Balance as at the beginning of the financial year	480,234	415,268
Charge during the financial year	218,674	215,014
Written off during the financial year	(182,134)	(124,813)
Exchange differences	(9,046)	(8,673)
Balance as at the end of the financial year	507,728	496,796

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM')

	Group 2017 RM'000	Bank 2017 RM'000
At amortised cost		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Securities	1,303,583	1,303,583
Malaysian Government Investment Issues	5,296,360	4,503,836
Cagamas bonds	350,601	350,601
Khazanah bonds	105,673	72,312
Negotiable instruments of deposits	3,697,694	1,859,604
Wakala Global Sukuk	30,182	21,348
Sukuk Perumahan Kerajaan	111,098	101,113
Singapore Government Securities	61,086	61,086
Thailand Government Securities	13,166	13,166
Sukuk (Brunei) Incorporation	37,862	37,862
UNQUOTED SECURITIES:		
In Malaysia		
Corporate bond/sukuk	7,859,344	5,989,837
Corporate loan stocks	56,857	30,144
Prasarana bonds	283,708	233,579
Outside Malaysia		
Corporate bond/sukuk	20,603	20,603
	19,227,817	14,598,674
Accumulated impairment losses	(181,874)	(102,469)
	19,045,943	14,496,205

Included in financial investments HTM of the Group and the Bank in 2017 were corporate bond/sukuk, which were pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM615,000,000 and RM1,600,000,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2018

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM') (CONTINUED)

	Group 2017 RM'000	Bank 2017 RM'000
Movements in allowance for impairment losses:		
Balance as at the beginning of the financial year	209,981	105,605
Written back during the financial year	(2,668)	(795)
Written off during the financial year	(24,316)	(1,218)
Exchange differences	(1,123)	(1,123)
Balance as at the end of the financial year	181,874	102,469

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	Group 2018 RM'000	Bank 2018 RM'000
At fair value		
(a) Debt instruments	31,900,621	26,946,919
(b) Equity instruments	677,212	637,457
	32,577,833	27,584,376
(a) Debt instruments		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Securities	3,043,129	2,914,403
Malaysian Government Investment Issues	4,317,009	3,235,390
Cagamas bonds	317,761	307,617
Khazanah bonds	52,942	–
Negotiable instruments of deposits	1,102,277	903,443
Other foreign government investment issues	20,633	20,633
Sukuk Perumahan Kerajaan	119,853	49,939
Singapore Government Securities	1,199,663	1,199,663
Thailand Government Securities	810,958	810,958
Singapore Government Treasury Bills	935,933	935,933
Singapore Housing Development Board	610,132	610,132
UNQUOTED SECURITIES:		
In Malaysia		
Corporate bond/sukuk	14,276,552	10,915,972
Perpetual notes/sukuk	102,750	102,750
Prasarana bonds	1,189,007	1,163,546
Outside Malaysia		
Corporate bond/sukuk	3,802,022	3,776,540
	31,900,621	26,946,919

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI') (CONTINUED)

(a) Debt instruments (continued)

	Group 2018 RM'000	Bank 2018 RM'000
Movement in credit impaired financial assets at FVOCI		
Balance as at the beginning of the financial year		
– As previously reported	–	–
– Effect of adoption of MFRS 9	8,520	8,520
– As restated	8,520	8,520
Derecognition	(2,003)	(2,003)
Changes in market value/accrued interest	(2,336)	(2,336)
Exchange differences	1,071	1,071
Balance as at the end of the financial year	5,252	5,252

Movement in allowance for credit losses recognised in FVOCI reserves

Group 2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	58,128	794	–	58,922
– As restated	58,128	794	–	58,922
Transfer to 12-month ECL (Stage 1)	802	(802)	–	–
Transfer to Lifetime ECL not credit impaired (Stage 2)	(238)	238	–	–
Allowance (written back)/made during the financial year	(11,908)	870	–	(11,038)
Purchases and origination	47,630	–	–	47,630
Derecognition and disposal	(36,964)	(793)	–	(37,757)
Exchange differences	(1,473)	(1)	–	(1,474)
Balance as at the end of the financial year	55,977	306	–	56,283

Notes to the Financial Statements

for the financial year ended 31 December 2018

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI') (CONTINUED)

(a) Debt instruments (continued)

Movement in allowance for credit losses recognised in FVOCI reserves (continued)

Bank **2018**	**12-month ECL (Stage 1)** **RM'000**	**Lifetime ECL not credit impaired (Stage 2)** **RM'000**	**Lifetime ECL credit impaired (Stage 3)** **RM'000**	**Total** **RM'000**
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	52,371	794	–	53,165
– As restated	52,371	794	–	53,165
Allowance written back during the financial year	(10,753)	–	–	(10,753)
Purchases and origination	45,869	–	–	45,869
Derecognition and disposal	(35,723)	(793)	–	(36,516)
Exchange differences	(1,486)	(1)	–	(1,487)
Balance as at the end of the financial year	50,278	–	–	50,278

	Group **2018** **RM'000**	**Bank** **2018** **RM'000**
(b) Equity instruments		
<u>**QUOTED SECURITIES:**</u>		
In Malaysia		
Shares	514	–
Outside Malaysia		
Shares	2,082	–
<u>**UNQUOTED SECURITIES:**</u>		
In Malaysia		
Shares	674,218	637,456
Outside Malaysia		
Shares	398	1
	677,212	637,457

At 1 January 2018, the Group and the Bank designated certain investments shown in the following table as equity securities under FVOCI. In 2017, these investments were classified as financial investments AFS. The FVOCI designation was made because these investments are either held for socio-economic purposes or not for trading purposes. There is no transfer of cumulative gain/(loss) in the equity during the year.

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI') (CONTINUED)

	Group		Bank	
2018	Fair value RM'000	Dividend income recognised during the financial year RM'000	Fair value RM'000	Dividend income recognised during the financial year RM'000
Securities				
Cagamas Holdings Berhad	313,157	2,527	285,065	2,347
Financial Park (Labuan) Sdn Bhd	214,374	–	214,374	–
Credit Guarantee Corporation Malaysia Bhd	65,912	–	65,912	–
Others	83,769	660	72,106	310

8 FINANCIAL INVESTMENTS AT AMORTISED COST

	Group 2018 RM'000	Bank 2018 RM'000
At amortised cost		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Securities	100,602	100,602
Malaysian Government Investment Issues	3,727,517	3,164,199
Cagamas bonds	1,152,842	934,517
Khazanah bonds	110,467	75,672
Wakala Global Sukuk	8,626	–
Sukuk Perumahan Kerajaan	111,065	101,066
Singapore Government Treasury bills	121,160	121,160
Singapore Government Securities	91,476	91,476
Sukuk (Brunei) Incorporation	39,425	39,425
UNQUOTED SECURITIES:		
In Malaysia		
Corporate bond/sukuk	8,667,354	5,647,529
Corporate loan stocks	27,023	860
Prasarana bonds	274,065	208,371
	14,431,622	10,484,877
Allowance for credit losses	(341,347)	(256,226)
	14,090,275	10,228,651

Included in financial investments at amortised cost of the Group and the Bank in 2018 are corporate bond/sukuk, which are pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM2,040,000,000 and RM2,970,000,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2018

8 FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

	Group 2018 RM'000	Bank 2018 RM'000
Movement in credit impaired financial investments at amortised cost		
Balance as at the beginning of the financial year		
– As previously reported	–	–
– Effect of adoption of MFRS 9	144,100	64,695
– As restated	144,100	64,695
Derecognition	(2,771)	(1,430)
Changes in market value/accrued interest	(102)	(102)
Exchange differences	178	178
Balance as at the end of the financial year	141,405	63,341

Movement in allowance for credit losses

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Group				
2018				
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	23,276	185,629	143,539	352,444
– As restated	23,276	185,629	143,539	352,444
Allowance (written back)/made during the financial year	17	(7,592)	(1,518)	(9,093)
Purchases and origination	14,981	–	–	14,981
Derecognition	(14,473)	(1,354)	(1,340)	(17,167)
Exchange differences	19	–	163	182
Balance as at the end of the financial year	23,820	176,683	140,844	341,347
Bank				
2018				
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	20,705	184,311	64,134	269,150
– As restated	20,705	184,311	64,134	269,150
Allowance written back during the financial year	(166)	(8,527)	(1,518)	(10,211)
Purchases and origination	10,929	–	–	10,929
Derecognition	(12,451)	(1,354)	–	(13,805)
Exchange differences	–	–	163	163
Balance as at the end of the financial year	19,017	174,430	62,779	256,226

9 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(a) By type				
At amortised cost				
Overdrafts	**6,786,330**	6,471,039	**5,770,136**	5,610,819
Term loans/financing:				
– Housing loans/financing	**56,096,417**	49,566,956	**40,489,870**	37,523,253
– Syndicated term loans/financing	**6,475,098**	6,409,437	**2,993,804**	3,171,702
– Hire purchase receivables/financing	**9,441,182**	9,316,262	**2,195,103**	3,130,528
– Lease receivables	**715**	3,455	**–**	–
– Other term loans/financing	**68,123,168**	67,121,063	**45,025,256**	47,294,834
Bills receivables	**3,429,081**	3,447,838	**2,388,667**	2,402,728
Trust receipts	**587,595**	560,934	**564,973**	541,284
Claims on customers under acceptance credits	**3,293,614**	3,464,404	**3,293,614**	3,464,404
Staff loans/financing	**116,296**	146,789	**113,618**	127,447
Credit/charge card receivables	**2,149,984**	2,094,608	**1,865,814**	1,827,031
Revolving credits/financing	**12,379,047**	11,521,125	**5,970,550**	5,733,738
Gross loans, advances and financing	**168,878,527**	160,123,910	**110,671,405**	110,827,768
Fair value changes arising from fair value hedges	**2,840**	3,531	**1,873**	2,735
	168,881,367	160,127,441	**110,673,278**	110,830,503
Less:				
– Allowance for credit losses	**(3,251,593)**	–	**(2,457,132)**	–
– Individual impairment allowance	**–**	(761,692)	**–**	(493,112)
– Collective impairment allowance	**–**	(1,064,286)	**–**	(807,074)
Net loans, advances and financing	**165,629,774**	158,301,463	**108,216,146**	109,530,317

Included in loans, advances and financing are housing loans, hire purchase receivables and other term loans/financing sold to Cagamas with recourse to the Group and the Bank amounting to RM4,926,536,000 (2017: RM1,593,068,000) and RM2,723,536,000 (2017: RM1,593,068,000) respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2018

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(b) By type of customer				
Domestic non-bank financial institutions:				
– Others	**4,002,667**	3,222,619	**544,223**	538,467
Domestic business enterprises:				
– Small and medium enterprises	**27,215,078**	27,333,435	**22,858,685**	24,048,771
– Others	**27,079,712**	28,770,957	**14,813,073**	15,863,860
Government and statutory bodies	**6,966,868**	5,952,097	**1,941,949**	1,947,074
Individuals	**84,651,922**	76,401,814	**55,763,504**	54,403,698
Other domestic entities	**144,079**	118,489	**14,087**	18,312
Foreign entities	**18,818,201**	18,324,499	**14,735,884**	14,007,586
	168,878,527	160,123,910	**110,671,405**	110,827,768
(c) By geographical distribution				
Malaysia	**150,434,800**	141,991,108	**97,353,043**	98,067,587
Labuan Offshore	**2,483,266**	2,813,607	**–**	–
Singapore	**11,894,363**	11,456,127	**11,696,999**	11,309,482
Thailand	**1,628,349**	1,566,795	**1,453,771**	1,297,959
Brunei	**167,592**	152,740	**167,592**	152,740
Indonesia	**128,070**	111,148	**–**	–
Hong Kong	**88,022**	170,649	**–**	–
Cambodia	**1,822,861**	1,650,403	**–**	–
Lao	**231,204**	211,333	**–**	–
	168,878,527	160,123,910	**110,671,405**	110,827,768
(d) By interest/profit rate sensitivity				
Fixed rate:				
– Housing loans/financing	**534,779**	585,855	**101,320**	113,242
– Hire purchase receivables/financing	**5,464,754**	7,583,002	**2,195,103**	3,130,528
– Other fixed rate loans/financing	**18,188,907**	17,887,103	**9,559,918**	8,036,358
Variable rate:				
– Base lending/financing rate/base rate plus	**102,592,662**	94,279,009	**67,621,594**	66,264,428
– Cost-plus	**30,492,993**	30,805,844	**25,317,549**	27,987,482
– Other variable rates	**11,604,432**	8,983,097	**5,875,921**	5,295,730
	168,878,527	160,123,910	**110,671,405**	110,827,768

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(e) By economic sector				
Agriculture, hunting, forestry and fishing	**3,739,027**	4,636,416	**2,461,618**	2,907,175
Mining and quarrying	**1,186,963**	1,154,489	**326,975**	272,349
Manufacturing	**8,453,566**	8,589,318	**6,613,596**	6,810,028
Electricity, gas and water	**2,191,232**	2,304,182	**1,795,537**	1,908,591
Construction	**12,155,342**	11,039,039	**7,801,936**	7,826,427
Wholesale and retail trade and restaurant and hotel	**12,852,649**	11,521,445	**10,596,310**	9,554,468
Transport, storage and communication	**7,886,642**	8,375,796	**3,026,887**	3,231,028
Real estate	**4,592,967**	3,781,156	**3,364,082**	2,421,062
Finance, insurance and business services	**15,123,493**	16,026,747	**10,265,837**	11,777,761
Government and government agencies	**5,456,807**	4,301,239	**1,941,949**	1,947,074
Education, health and others	**5,196,479**	6,029,951	**2,547,949**	3,362,044
Household sector	**88,914,861**	81,028,604	**59,260,651**	58,083,176
Others	**1,128,499**	1,335,528	**668,078**	726,585
	168,878,527	160,123,910	**110,671,405**	110,827,768
(f) By purpose				
Purchase of securities	**11,049,203**	12,052,907	**6,538,214**	8,442,043
Purchase of transport vehicles	**8,860,127**	8,727,290	**1,558,419**	2,366,712
Purchase of landed property:				
– Residential	**54,684,923**	48,547,367	**39,841,953**	36,968,845
– Non-residential	**18,035,783**	17,120,395	**14,001,746**	13,513,090
Purchase of property, plant and equipment other than land and building	**2,763,968**	3,138,179	**2,050,330**	2,252,525
Personal use	**10,329,313**	9,023,193	**6,696,533**	6,224,880
Credit card	**2,149,984**	2,094,608	**1,865,814**	1,827,031
Purchase of consumer durables	**15,956**	20,439	**15,956**	20,238
Construction	**7,276,962**	7,007,002	**5,376,007**	5,270,528
Working capital	**37,840,088**	36,976,750	**23,987,333**	25,425,147
Merger and acquisition	**2,858,468**	3,037,916	**1,429,580**	1,545,552
Other purposes	**13,013,752**	12,377,864	**7,309,520**	6,971,177
	168,878,527	160,123,910	**110,671,405**	110,827,768
(g) By remaining contractual maturities				
Maturity within one year	**42,198,881**	44,794,269	**32,450,920**	33,861,312
One year to three years	**11,255,456**	13,972,130	**6,811,286**	7,574,660
Three years to five years	**13,171,605**	10,789,675	**6,731,774**	6,699,923
Over five years	**102,252,585**	90,567,836	**64,677,425**	62,691,873
	168,878,527	160,123,910	**110,671,405**	110,827,768

Notes to the Financial Statements

for the financial year ended 31 December 2018

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

(h) By stages

Group 2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	138,853,911	17,126,919	4,044,770	160,025,600
– As restated	138,853,911	17,126,919	4,044,770	160,025,600
Transfer to 12-month ECL (Stage 1)	4,284,814	(3,980,510)	(304,304)	–
Transfer to Lifetime ECL not credit impaired (Stage 2)	(4,347,109)	4,582,277	(235,168)	–
Transfer to Lifetime ECL credit impaired (Stage 3)	(479,334)	(472,259)	951,593	–
Purchases and origination	45,771,044	3,647,390	599,037	50,017,471
Derecognition	(33,288,892)	(6,322,429)	(850,707)	(40,462,028)
Amount written off	–	–	(727,464)	(727,464)
Exchange differences	830	18,321	5,797	24,948
Balance as at the end of the financial year	150,795,264	14,599,709	3,483,554	168,878,527
Bank **2018**				
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	95,160,637	12,470,599	3,140,438	110,771,674
– As restated	95,160,637	12,470,599	3,140,438	110,771,674
Transfer to 12-month ECL (Stage 1)	3,428,519	(3,192,128)	(236,391)	–
Transfer to Lifetime ECL not credit impaired (Stage 2)	(3,005,056)	3,204,684	(199,628)	–
Transfer to Lifetime ECL credit impaired (Stage 3)	(363,606)	(336,719)	700,325	–
Purchases and origination	22,005,782	2,940,537	511,037	25,457,356
Derecognition	(20,076,112)	(4,181,378)	(772,789)	(25,030,279)
Amount written off	–	–	(584,161)	(584,161)
Exchange differences	55,124	5,316	(3,625)	56,815
Balance as at the end of the financial year	97,205,288	10,910,911	2,555,206	110,671,405

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2017 RM'000	Bank 2017 RM'000
(i) Impaired loans, advances and financing		
(i) Movements in impaired loans, advances and financing		
Balance as at the beginning of the financial year	3,749,949	2,719,127
Classified as impaired	4,121,726	3,471,543
Reclassified as non-impaired	(2,504,932)	(1,971,469)
Amount recovered	(787,464)	(528,042)
Amount written off	(946,957)	(887,533)
Exchange differences	(64,534)	(19,156)
Balance as at the end of the financial year	3,567,788	2,784,470

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(ii) By economic sector				
Agriculture, hunting, forestry and fishing	**67,839**	67,014	**42,726**	41,095
Mining and quarrying	**202,393**	183,277	**1,467**	1,581
Manufacturing	**478,806**	474,311	**337,886**	357,347
Electricity, gas and water	**89,747**	61,788	**32,175**	31,524
Construction	**305,692**	673,448	**221,789**	632,724
Wholesale and retail trade and restaurant and hotel	**359,494**	436,655	**268,985**	329,192
Transport, storage and communication	**455,837**	311,404	**445,785**	300,151
Real estate	**283,473**	237,365	**272,860**	231,885
Finance, insurance and business services	**78,583**	125,747	**58,247**	74,827
Education, health and others	**17,924**	12,343	**6,143**	8,522
Household sector	**1,109,278**	982,253	**862,454**	775,224
Others	**34,488**	2,183	**4,689**	398
	3,483,554	3,567,788	**2,555,206**	2,784,470
(iii) By geographical distribution				
Malaysia	**2,195,609**	1,839,499	**1,686,163**	1,494,742
Labuan Offshore	**285,737**	275,857	**–**	–
Singapore	**838,978**	1,268,365	**827,655**	1,253,371
Thailand	**33,682**	37,295	**25,031**	28,865
Brunei	**16,357**	7,492	**16,357**	7,492
Cambodia	**88,715**	63,103	**–**	–
Hong Kong	**16**	69,800	**–**	–
Lao	**24,460**	6,377	**–**	–
	3,483,554	3,567,788	**2,555,206**	2,784,470

Notes to the Financial Statements

for the financial year ended 31 December 2018

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

(i) Impaired loans, advances and financing (continued)

(iv) Movement in allowance for credit losses

Group 2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	513,570	925,900	1,803,107	3,242,577
– As restated	513,570	925,900	1,803,107	3,242,577
Changes due to financial assets recognised in the opening balance that have:				
– Transferred to 12-month ECL (Stage 1)	210,496	(131,950)	(78,546)	–
– Transferred to Lifetime ECL not credit impaired (Stage 2)	(42,112)	87,737	(45,625)	–
– Transferred to Lifetime ECL credit impaired (Stage 3)	(12,056)	(45,327)	57,383	–
	156,328	(89,540)	(66,788)	–
Allowance made/(written back) during the financial year	(31,805)	250,854	724,343	943,392
Bad debts written off	–	–	(561,971)	(561,971)
Derecognition	(46,617)	(95,675)	(375,675)	(517,967)
Reclassification from financial assets at FVOCI	–	–	135,716	135,716
Exchange differences	435	3,065	6,346	9,846
Balance as at the end of the financial year	591,911	994,604	1,665,078	3,251,593
Bank				
2018				
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	430,239	720,125	1,302,193	2,452,557
– As restated	430,239	720,125	1,302,193	2,452,557
Changes due to financial assets recognised in the opening balance that have:				
– Transferred to 12-month ECL (Stage 1)	174,619	(108,172)	(66,447)	–
– Transferred to Lifetime ECL not credit impaired (Stage 2)	(27,641)	65,614	(37,973)	–
– Transferred to Lifetime ECL credit impaired (Stage 3)	(11,202)	(38,131)	49,333	–
	135,776	(80,689)	(55,087)	–
Allowance made/(written back) during the financial year	(43,162)	214,994	577,807	749,639
Bad debts written off	–	–	(427,029)	(427,029)
Derecognition	(33,154)	(80,650)	(340,580)	(454,384)
Reclassification from financial assets at FVOCI	–	–	135,716	135,716
Exchange differences	(291)	811	113	633
Balance as at the end of the financial year	489,408	774,591	1,193,133	2,457,132

Included in allowance for credit losses for the Group and the Bank as at 31 December 2018 is expected credit losses for loan commitments and financial guarantee contracts amounting to RM62,998,000 and RM51,657,000 respectively.

9 LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2017 RM'000	Bank 2017 RM'000
(i) Impaired loans, advances and financing (continued)		
(v) Movements in allowance for impaired loans, advances and financing		
Individual impairment allowance		
Balance as at the beginning of the financial year	999,328	827,505
Net allowance made	309,870	190,532
Amount written off	(517,524)	(514,721)
Exchange differences	(29,982)	(10,204)
Balance as at the end of the financial year	761,692	493,112
Collective impairment allowance		
Balance as at the beginning of the financial year	1,132,836	866,430
Net allowance made	225,669	186,321
Amount written off	(288,436)	(244,386)
Exchange differences	(5,783)	(1,291)
Balance as at the end of the financial year	1,064,286	807,074

10 CLIENTS' AND BROKERS' BALANCES

	Group	
	2018 RM'000	**2017 RM'000**
Amounts owing by clients	**578,118**	1,061,043
Less:		
– Allowance for credit losses	**(19,564)**	–
– Individual impairment allowance	**–**	(28,551)
– Collective impairment allowance	**–**	(3,331)
	558,554	1,029,161
Amounts owing by brokers	**119,980**	230,439
Amounts owing by clearing houses and stock exchanges	**264,522**	339,994
	943,056	1,599,594

Notes to the Financial Statements

for the financial year ended 31 December 2018

10 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

Movement in allowance for credit losses

Group 2018	Credit impaired RM'000	Non-credit impaired RM'000	Total RM'000
Balance as at the beginning of the financial year			
– As previously reported	–	–	–
– Effect of adoption of MFRS 9	142,297	642	142,939
– As restated	142,297	642	142,939
Allowance for credit losses	2,014	403	2,417
Transferred to credit impaired	149	(149)	–
Amount written off	(123,876)	–	(123,876)
Derecognised	(1,493)	(643)	(2,136)
Exchange differences	220	–	220
Balance as at the end of the financial year	19,311	253	19,564

	Group 2017 RM'000
Movements in allowance for impaired balances	
Individual impairment allowance	
Balance as at the beginning of the financial year	16,568
Allowance made	6,911
Transfer from collective allowance	12,634
Amount written off	(7,323)
Exchange differences	(239)
Balance as at the end of the financial year	28,551
Collective impairment allowance	
Balance as at the beginning of the financial year	16,609
Allowance written back	(219)
Transfer to individual allowance	(12,634)
Exchange differences	(425)
Balance as at the end of the financial year	3,331

Notes to the Financial Statements

for the financial year ended 31 December 2018

11 REINSURANCE ASSETS

		Group	
	Note	2018 RM'000	2017 RM'000
Claims liabilities	25(a)	**411,881**	377,685
Premium liabilities	25(b)	**99,355**	105,075
		511,236	482,760

12 OTHER ASSETS

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Other receivables	(i)	**1,091,121**	663,468	**343,376**	239,555
Cash collateral in relation to derivative transactions		**239,348**	271,320	**239,348**	268,434
Deposits		**53,400**	71,620	**30,495**	31,773
Prepayments		**105,970**	99,640	**61,840**	53,931
Amount due from subsidiaries	(ii)	**–**	–	**246,754**	313,202
		1,489,839	1,106,048	**921,813**	906,895

(i) Other receivables of the Group which comprise of fee and premium receivable are stated net of allowance for credit losses/impairment losses of RM31,163,000 (2017: RM23,709,000).

Movement in allowance for credit losses in 2018 is as follows:

	Group
	2018 RM'000
Balance as at the beginning of the financial year	
– As previously reported	**–**
– Effect of adoption of MFRS 9	**38,808**
– As restated	**38,808**
Allowance written back	**(1,894)**
Bad debts written off	**(5,760)**
Exchange differences	**9**
Balance as at the end of the financial year	**31,163**

(ii) Amount due from subsidiaries are unsecured, interest free and receivable within the normal credit period.

Notes to the Financial Statements

for the financial year ended 31 December 2018

13 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges and for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Group's and Bank's accounting policies.

The table below shows the Group's and the Bank's derivative financial instruments as at the date of statements of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative assets) and gross negative (derivative liabilities) fair values at the date of statements of financial position are analysed below:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Derivative assets:				
– Trading derivatives	**1,131,057**	1,826,667	**1,147,494**	1,834,676
Derivative liabilities:				
– Trading derivatives	**(1,112,934)**	(2,546,954)	**(1,116,520)**	(2,509,430)
– Fair value hedging derivatives	**(3,767)**	(4,550)	**(3,767)**	(4,550)
	(1,116,701)	(2,551,504)	**(1,120,287)**	(2,513,980)

13 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	2018			2017		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
Group						
Trading derivatives:						
Foreign exchange related contracts:						
– Forwards/swaps	**72,781,350**	**408,504**	**(488,934)**	69,831,012	1,067,756	(1,696,944)
– Options	**583,492**	**8,504**	**(8,255)**	1,102,069	6,054	(4,276)
– Cross-currency interest rate swaps	**6,190,687**	**503,616**	**(455,016)**	8,982,468	617,212	(695,320)
	79,555,529	**920,624**	**(952,205)**	79,915,549	1,691,022	(2,396,540)
Interest rate related contracts:						
– Swaps	**36,833,664**	**210,433**	**(156,483)**	35,451,527	135,645	(104,467)
Equity related contracts:						
– Options	**–**	**–**	**–**	7,262	–	–
Structured warrants	**89,405**	**–**	**(4,246)**	233,286	–	(45,947)
Fair value hedging derivatives:						
Interest rate related contracts:						
– Swaps	**555,000**	**–**	**(3,767)**	2,350,000	–	(4,550)
		1,131,057	**(1,116,701)**		1,826,667	(2,551,504)
Bank						
Trading derivatives:						
Foreign exchange related contracts:						
– Forwards/swaps	**74,972,799**	**420,881**	**(496,622)**	72,253,738	1,072,083	(1,704,894)
– Options	**583,492**	**8,504**	**(8,255)**	1,102,069	6,054	(4,276)
– Cross-currency interest rate swaps	**7,466,607**	**502,989**	**(455,154)**	9,185,402	616,499	(695,706)
	83,022,898	**932,374**	**(960,031)**	82,541,209	1,694,636	(2,404,876)
Interest rate related contracts:						
– Swaps	**39,373,664**	**215,120**	**(156,489)**	36,796,527	140,040	(104,554)
Fair value hedging derivatives:						
Interest rate related contracts:						
– Swaps	**555,000**	**–**	**(3,767)**	2,350,000	–	(4,550)
		1,147,494	**(1,120,287)**		1,834,676	(2,513,980)

Notes to the Financial Statements

for the financial year ended 31 December 2018

13 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

(i) Fair value hedges

Fair value hedging are used by the Group and the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market interest rates. The Group and the Bank use interest rate swaps to hedge against interest rate risk of specific identified fixed rate long term as well as portfolio homogenous pools of loans, advances and financing. Included in other operating income as disclosed in Note 37 is the net gains and losses arising from fair value hedges for the financial year as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
Gain on hedging instruments	**918**	1,492
Loss on the hedged items attributable to the hedged risk	**(862)**	(1,377)
	56	115

(ii) Net investment hedge

The Group's statements of financial position is affected by gains and losses as a result of the revaluation of net assets of its subsidiaries denominated in currencies other than its functional currency. The Group hedges its exposures to foreign currency risk via the designation of foreign currency denominated deposits and the fair value as at 31 December 2018 amounted to RM305 million (2017: RM327 million). The hedging relationship was fully effective for the total hedging period and as of the reporting date.

14 STATUTORY DEPOSITS

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Statutory deposits with BNM	(a)	**4,350,167**	3,597,219	**2,869,418**	2,429,369
Statutory deposits with Monetary Authority of Singapore	(b)	**90,987**	90,870	**90,987**	90,870
Statutory deposits with Ministry of Finance Negara Brunei Darussalam	(c)	**18,272**	17,868	**18,272**	17,868
Statutory deposits with Labuan Offshore Financial Services Authority ('LOFSA')	(d)	**100**	100	**–**	–
Statutory deposits and reserve deposits with National Bank of Cambodia ('NBC')	(e)	**334,373**	293,396	**–**	–
Statutory deposits with National Bank of Lao ('BOL')	(f)	**1,331**	1,549	**–**	–
		4,795,230	4,001,002	**2,978,677**	2,538,107

(a) Non-interest bearing statutory deposits maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount is determined at a set percentage of total eligible liabilities.

(b) Non-interest bearing statutory deposits maintained with the Monetary Authority of Singapore in compliance with Banking Act, Cap.19 and Singapore Finance Companies Act Cap.108.

14 STATUTORY DEPOSITS (CONTINUED)

(c) Non-interest bearing statutory deposits maintained with the Ministry of Finance, Negara Brunei Darussalam in compliance with Section 6A of the Banking Act.

(d) Non-interest bearing statutory deposits maintained with LOFSA relating to a trust subsidiary which is maintained in accordance with Section 61(2)(b)(ii) of the Labuan Financial Services and Securities Act 2010.

(e) Included in statutory deposits with NBC are:

(i) Interest bearing statutory deposits of RM31.0 million (2017: RM28.7 million) maintained with NBC in compliance with NBC's Prakas B7-01-136 dated 15 October 2001 as capital guarantee. This deposit bears interest at 0.62% (2017: 0.36%) per annum, and is not available for use in day-to-day operations but it is refundable when RHB Indochina Bank Limited voluntarily ceases to operate its banking business in Cambodia.

(ii) Non-interest bearing deposits of RM299.2 million (2017: RM260.7 million) maintained with NBC as reserve, computed at 8.0% (2017: 8.0%) and 12.5% (2017: 12.5%) of customer deposits in Cambodian Riel ('KHR') and in foreign currencies, respectively.

(iii) Non-interest bearing statutory deposits of RM4.1 million (2017: RM4.0 million) maintained with NBC as capital guarantee deposits in compliance with Securities and Exchange Commission of Cambodia ('SECC')'s Prakas No. 009 on the Licensing of Securities Firms and Securities Representatives for operating as a securities underwriter in Cambodia.

(f) Non-interest bearing statutory deposits maintained with BOL computed at 5% and 10% (2017: 5% and 10%) of customer deposits in Lao Kip ('LAK') and in foreign currencies, respectively.

The statutory deposits amount and reserve requirements mentioned above are determined by the respective authorities.

15 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set off, are shown in the statements of financial position:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Deferred tax assets	**79,191**	36,072	**32,490**	–
Deferred tax liabilities	**(2,308)**	(19,698)	**–**	(14,467)
	76,883	16,374	**32,490**	(14,467)
Deferred tax assets:				
– Settled more than twelve months	**79,418**	105,311	**52,818**	88,162
– Settled within twelve months	**159,833**	140,614	**125,347**	105,580
Deferred tax liabilities:				
– Settled more than twelve months	**(128,002)**	(196,222)	**(115,861)**	(183,977)
– Settled within twelve months	**(34,366)**	(33,329)	**(29,814)**	(24,232)
	76,883	16,374	**32,490**	(14,467)

Notes to the Financial Statements

for the financial year ended 31 December 2018

15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following:

Group	Note	Property, plant and equipment and intangible assets RM'000	Financial assets at FVOCI/ financial investments AFS RM'000	Tax losses RM'000	Provisions RM'000	Expected credit losses RM'000	Total RM'000
2018							
Balance as at the beginning of the financial year							
– As previously reported		**(50,405)**	**(93,083)**	**5,160**	**154,702**	**–**	**16,374**
– Effect of adoption of MFRS 9		**–**	**(2,768)**	**–**	**2,491**	**–**	**(277)**
– As restated		**(50,405)**	**(95,851)**	**5,160**	**157,193**	**–**	**16,097**
Transfer from/(to) income statements	43	**(12,329)**	**–**	**(8)**	**(3,212)**	**82,524**	**66,975**
Transfer to equity		**–**	**(7,994)**	**–**	**(364)**	**–**	**(8,358)**
Exchange differences		**15**	**1**	**38**	**2,115**	**–**	**2,169**
Balance as at the end of the financial year		**(62,719)**	**(103,844)**	**5,190**	**155,732**	**82,524**	**76,883**
2017							
Balance as at the beginning of the financial year		(50,858)	(32,732)	18,421	162,586	–	97,417
Transfer from/(to) income statements	43	414	(432)	(11,451)	(7,375)	–	(18,844)
Transfer to equity		–	(59,919)	–	(159)	–	(60,078)
Exchange differences		39	–	(1,810)	(350)	–	(2,121)
Balance as at the end of the financial year		(50,405)	(93,083)	5,160	154,702	–	16,374

15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following (continued):

Bank	Note	Property, plant and equipment and intangible assets RM'000	Financial assets at FVOCI/ financial investments AFS RM'000	Tax losses RM'000	Provisions RM'000	Expected credit losses RM'000	Total RM'000
2018							
Balance as at the beginning of the financial year							
– As previously reported		**(38,381)**	**(85,746)**	**–**	**109,660**	**–**	**(14,467)**
– Effect of adoption of MFRS 9		**–**	**(4,977)**	**–**	**–**	**–**	**(4,977)**
– As restated		**(38,381)**	**(90,723)**	**–**	**109,660**	**–**	**(19,444)**
Transfer from/(to) income statements	43	**(12,852)**	**–**	**–**	**(2,905)**	**69,454**	**53,697**
Transfer to equity		**–**	**(3,719)**	**–**	**–**	**–**	**(3,719)**
Exchange differences		**–**	**–**	**–**	**1,956**	**–**	**1,956**
Balance as at the end of the financial year		**(51,233)**	**(94,442)**	**–**	**108,711**	**69,454**	**32,490**
2017							
Balance as at the beginning of the financial year		(34,387)	(34,143)	11,343	115,487	–	58,300
Transfer to income statements	43	(3,994)	–	(9,611)	(5,744)	–	(19,349)
Transfer to equity		–	(51,603)	–	–	–	(51,603)
Exchange differences		–	–	(1,732)	(83)	–	(1,815)
Balance as at the end of the financial year		(38,381)	(85,746)	–	109,660	–	(14,467)

Notes to the Financial Statements
for the financial year ended 31 December 2018

15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred tax assets have not been recognised on the following amounts as it is not probable that the relevant subsidiaries will generate sufficient future taxable profits available against which the deductible temporary differences can be utilised:

	Group	
	2018 RM'000	**2017 RM'000**
Unabsorbed tax losses carried forward	**972,676**	916,372
Unabsorbed capital allowances carried forward	**1,156**	1,108
	973,832	917,480

For Malaysia, the deductible temporary differences have an expiry date of 7 years which is in line with the new Section 44(5F) of the Income Tax Act 1967 that comes into operation from year of assessment 2019 and subsequent years of assessment. For overseas, the deductible temporary differences have no expiry date, except for Thailand and Indonesia which can only be carried forward to deduct against future profits for a period of 5 years.

16 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2018 RM'000	**2017 RM'000**
Unquoted shares, at cost:		
– In Malaysia	**4,413,233**	4,013,233
– Outside Malaysia	**499,171**	483,348
	4,912,404	4,496,581
Accumulated impairment losses	**(744)**	(744)
	4,911,660	4,495,837

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows:

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Islamic Bank Berhad[3] ('RHB Islamic Bank')	Malaysia	1,673,424,002	**100**	100	**–**	–	Islamic banking
RHB Bank (L) Ltd	Malaysia	USD54,000,000	**100**	100	**–**	–	Labuan banking business
RHB International Trust (L) Ltd	Malaysia	USD40,000	**100**	100	**–**	–	Labuan trust company
RHB Corporate Services Sdn Bhd	Malaysia	150,000	**100**	100	**–**	–	Corporate secretarial services
RHB Indochina Bank Limited[1,4] ('RHB Indochina Bank')	Cambodia	USD75,000,000	**100**	100	**–**	–	Commercial banking
RHB Bank Lao Limited[1]	Lao PDR	LAK301,500 million	**100**	100	**–**	–	Commercial banking
RHB Capital Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for Malaysian beneficial shareholders
RHB Capital Nominees (Asing) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for foreign beneficial shareholders
RHB Investment Ltd[1]	Singapore	SGD19,000,000	**100**	100	**–**	–	Other investment holding companies
Banfora Pte Ltd[1]	Singapore	SGD25,000,000	**100**	100	**–**	–	Other investment holding companies
RHB Bank Nominees Pte Ltd[1]	Singapore	SGD100,000	**100**	100	**–**	–	Trustee, fiduciary and custody services firm
RHB Leasing Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Leasing of industrial construction, business equipment and motor vehicles
RHB Capital Properties Sdn Bhd	Malaysia	7,300,000	**100**	100	**–**	–	Property investment

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
Utama Assets Sdn Bhd	Malaysia	300,000	**100**	100	**–**	–	Own and manage real properties for use by its related companies
RHB Investment Bank Berhad ('RHB Investment Bank')	Malaysia	1,487,773,000	**100**	100	**–**	–	Merchant banking business, dealing in securities, stock, debt and derivatives, stockbroking business and the business of brokers and dealers in futures and options contracts
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for foreign beneficial shareholders
RHB Nominees Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for Malaysian beneficial shareholders
RHB Asset Management Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Rendering of investment management services, management of unit trust funds and private retirement schemes and provision of investment advisory services

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Islamic International Asset Management Berhad	Malaysia	13,000,000	**100**	100	**–**	–	Rendering of Islamic fund management services and management of Islamic unit trust funds
RHB Research Institute Sdn Bhd	Malaysia	500,000	**100**	100	**–**	–	Research services
RHB Private Equity Holdings Sdn Bhd	Malaysia	110,000,002	**100**	100	**–**	–	Investment holding
RHB Private Equity Management Ltd	Malaysia	USD 1	**100**	100	**–**	–	Investment holding, investment management and other ancillary services for private equity business
RHB Private Equity Fund Ltd[5]	Cayman Islands	USD 10,001	**100**	100	**–**	–	Investment company
RHB International Investments Pte Ltd[1]	Singapore	SGD12,000,000	**100**	100	**–**	–	Investment holding
RHB Asset Management Pte Ltd[1]	Singapore	SGD12,100,000	**100**	100	**–**	–	Fund management
RHB Hong Kong Limited[1]	Hong Kong	HKD300,000,000	**100**	100	**–**	–	Investment holding
RHB Securities Hong Kong Limited[1]	Hong Kong	HKD340,000,000	**100**	100	**–**	–	Securities dealing and provision of securities margin financing and advising on securities
RHB Futures Hong Kong Limited[1]	Hong Kong	HKD35,000,000	**100**	100	**–**	–	Dealing in futures and options contracts
RHB Finance Hong Kong Limited[1]	Hong Kong	HKD1	**100**	100	**–**	–	Money lending

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Capital Hong Kong Limited[1]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Provision of corporate finance advisory services and to engage in securities dealing activities incidental to its corporate finance advisory activities
RHB Fundamental Capital Hong Kong Limited[1,6]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Dormant
RHB Asset Management Limited[1]	Hong Kong	HKD17,000,000	**100**	100	**–**	–	Dealing in securities, advising on securities and provision of asset management services
RHB Wealth Management Hong Kong Limited[1]	Hong Kong	HKD5,000,000	**100**	100	**–**	–	Negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policy holder or potential policy holder or advising on matters related to insurance
RHB (China) Investment Advisory Co Ltd[1]	People's Republic of China	USD2,000,000	**100**	100	**–**	–	Consulting for investment and business advisory and related services
PT RHB Sekuritas Indonesia[1]	Indonesia	IDR204,082 million	**99**	99	**1**	1	Securities brokerage and underwriting
PT RHB Asset Management Indonesia[1]	Indonesia	IDR50,000 million	**98.62**	98.62	**1.38**	1.38	Investment manager
RHB Securities Singapore Pte. Ltd.[1]	Singapore	SGD75,000,000	**100**	100	**–**	–	Provision of stock and share broking services and corporate finance advisory services

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Research Institute Singapore Pte. Ltd.[1]	Singapore	SGD175,000	**100**	100	**–**	–	Financial advisory services
RHB Securities (Thailand) Public Company Limited[1]	Thailand	THB819,171,600	**99.95**	99.95	**0.05**	0.05	Provision of stock and derivatives broking services
RHB Trustees Berhad	Malaysia	6,000,000	**100**	100	**–**	–	Professional retail trustee services (will writing, estate planning and private trust) and corporate trustee services (collective investment schemes)
Malaysian Trustees Berhad	Malaysia	550,000	**100**	100	**–**	–	Engage in the business of trustee agents, executors and administrators pursuant to the Trust Companies Act 1949
RHB Finexasia.Com Sdn Bhd	Malaysia	11,361,111	**100**	100	**–**	–	Investment holding, development of products and provision of services related to information technology
RHB Indochina Securities Plc.[1]	Cambodia	USD12,500,000	**100**	100	**–**	–	Securities underwriting, dealing, brokerage and investment advisory service
RHB Entrepreneur Fund[1,^]	Singapore	–	**49.78**	49.54	**50.22**	50.46	Invest in securities of companies that possess entrepreneurial characteristics as determined by the Manager

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Insurance Berhad ('RHB Insurance')	Malaysia	100,000,000	**94.7**	94.7	**5.3**	5.3	Underwriting of all classes of general insurance business
RHB-OSK Income Plus Fund 9^	Malaysia	–	**94.7**	94.7	**5.3**	5.3	Wholesale unit trust fund
RHB-OSK Income Plus Fund 2^	Malaysia	–	**94.7**	94.7	**5.3**	5.3	Wholesale unit trust fund
AmIncome Value^	Malaysia	–	**94.7**	94.7	**5.3**	5.3	Wholesale unit trust fund
RHB Property Management Sdn Bhd	Malaysia	500,000	**100**	100	**–**	–	Property management
RHB Capital (Jersey) Limited	Jersey, Channel Islands	GBP4,012	**100**	100	**–**	–	Investment holding
RHB Kawal Sdn Bhd	Malaysia	1,500,000	**100**	100	**–**	–	Security services
RHB Foundation*	Malaysia	–	**–**	–	**–**	–	Charitable foundation
RHB Bank's dormant subsidiaries							
RHB Trade Services Limited[2]	Hong Kong	HKD2	**100**	100	**–**	–	Dormant
UMBC Sdn Bhd	Malaysia	1,482,499,818	**100**	100	**–**	–	Dormant
RHB Delta Sdn Bhd[7]	Malaysia	345,000,000	**100**	100	**–**	–	Dormant
Utama Gilang Sdn Bhd[7]	Malaysia	800,000,000	**100**	100	**–**	–	Dormant
RHB (Philippines) Inc.[1,8]	Philippines	PHP180,000,000	**100**	100	**–**	–	Dormant
RHB Equities Sdn Bhd[9]	Malaysia	20,000,000	**100**	100	**–**	–	Dormant
KYB Sdn Bhd[10]	Malaysia	7,671,695,865	**–**	100	**–**	–	Dissolved

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
RHB Bank's dormant subsidiaries (continued)							
RHBF Sdn Bhd	Malaysia	148,145,176	**100**	100	**–**	–	Dormant
RHB Stock 188.Com Sdn Bhd	Malaysia	480,000	**100**	100	**–**	–	Dormant
RHB Investment Bank's dormant subsidiaries							
RHB Excel Sdn Bhd[11]	Malaysia	200,000,000	**100**	100	**–**	–	Dormant
RHB Progressive Sdn Bhd[11]	Malaysia	13,500,000	**100**	100	**–**	–	Dormant
RHB Marketing Services Sdn Bhd[7]	Malaysia	100,000	**100**	100	**–**	–	Dormant
RHB Unit Trust Management Berhad[11]	Malaysia	5,000,000	**100**	100	**–**	–	Dormant
RHB Futures and Options Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Dormant
RHB Research Sdn Bhd[12]	Malaysia	500,000	**100**	100	**–**	–	Dormant
RHB International Asset Management Sdn Bhd	Malaysia	7,000,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Tempatan) Sdn Bhd[12]	Malaysia	3,670,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Asing) Sdn Bhd[12]	Malaysia	2,670,000	**100**	100	**–**	–	Dormant
RHB Islamic Asset Management Sdn Bhd	Malaysia	4,000,000	**100**	100	**–**	–	Dormant
RHBIM Berhad	Malaysia	10,000,000	**100**	100	**–**	–	Dormant

Notes to the Financial Statements

for the financial year ended 31 December 2018

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows (continued):

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2018 %	Effective equity interest held by the Group 2017 %	Effective equity interest held by NCI 2018 %	Effective equity interest held by NCI 2017 %	Principal activities
TCL Nominees (Tempatan) Sdn Bhd[12]	Malaysia	644,000	**100**	100	**–**	–	Dormant
TCL Nominees (Asing) Sdn Bhd[12]	Malaysia	4,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Tempatan) Sdn Bhd[12]	Malaysia	650,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Asing) Sdn Bhd[12]	Malaysia	10,000	**100**	100	**–**	–	Dormant
RHB Nominees Singapore Pte. Ltd.[1]	Singapore	SGD2	**100**	100	**–**	–	Inactive
Summit Nominees Pte Ltd[1]	Singapore	SGD2,000	**100**	100	**–**	–	Inactive

Notes:

1 Subsidiaries audited by a member firm of PricewaterhouseCoopers which is a separate and independent legal entity from PricewaterhouseCoopers PLT, Malaysia.

2 Subsidiaries audited by a firm other than member firms of PricewaterhouseCoopers PLT. The company has on 12 October 2018 commenced the application for deregistration pursuant to Section 750 of the Hong Kong Companies Ordinance (Chapter 622).

3 The Bank has on 8 March 2018, injected additional capital of RM400 million into RHB Islamic Bank.

4 The Bank has on 29 January 2018, injected additional capital of USD4,000,000 (equivalent to RM15,823,000) into RHB Indochina Bank.

5 Subsidiary not audited pursuant to Companies Act 2013 in Cayman Islands.

6 The company has on 5 December 2018 commenced the application for deregistration pursuant to Section 750 of the Hong Kong Companies Ordinance (Chapter 622).

7 The company has commenced member's voluntary winding up on 16 February 2011.

8 The company has ceased operations effective from the close of business on 10 December 2001.

9 With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.

10 The company has been dissolved on 5 October 2018 at the expiration of the three months after the lodgement of the Return by Liquidator Relating to Final Meeting to the Companies Commission of Malaysia.

11 The company has commenced member's voluntary winding up on 28 March 2012.

12 The company has commenced member's voluntary winding up on 30 June 2017.

^ The funds are subsidiaries consolidated in the Group as the Group controls the funds in accordance with MFRS 10 'Consolidated Financial Statements'.

* Consolidated in the Group as the substance of the relationship between the entity and the Bank indicates that the entity is controlled by the Bank.

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Note	Group 2018 RM'000	Group 2017 RM'000
Investments in associates – at cost	(a)	**45,000**	45,000
Less: Allowance for impairment losses		**(35,500)**	(12,500)
		9,500	32,500
Share of net assets of joint ventures	(b)	**29,622**	29,523
Less: Allowance for impairment losses		**(13,770)**	(13,770)
		15,852	15,753
		25,352	48,253

(a) Share of net assets of associates

The details of the associates are as follows:

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest 2018 %	Effective equity interest 2017 %	Principal activities
Prostar Capital (Asia-Pacific) Ltd.[1] ('Prostar')	Cayman Islands	USD60	**33.33**	33.33	Investment holding with subsidiaries involved in the investment advisory and management of private equity funds
Satin Straits Sdn Bhd[2] ('Satin Straits')	Malaysia	5,000,000	**–**	–	Investment holding

Notes:

1 Held through RHB Private Equity Management Ltd, a wholly-owned subsidiary of RHB Private Equity Holdings Sdn Bhd ('RHBPE'), which in turn is a wholly-owned subsidiary of RHB Investment Bank.

As at 31 December 2018, the Group's share of cumulative losses in Prostar of RM341,000 (2017: RM26,000) has exceeded the cost of investment. Accordingly the Group does not recognise further losses in the current financial year.

2 Held through RHBPE, a wholly-owned subsidiary of RHB Investment Bank. The effective equity interest in Satin Straits is Nil as RHBPE has only subscribed for RM45 million Redeemable Convertible Preference Shares. RHBPE will only share the profits of the company and is entitled for full principal repayment upon maturity and with upside potential upon the trade sales or listing of the company.

The Group has accounted for this as an associate as the Group is deemed to have significant influence in accordance with MFRS 128 'Investment in Associates and Joint Ventures'.

There are no capital commitments or contingent liabilities relating to the Group's investments in the associates as at 31 December 2018.

Notes to the Financial Statements

for the financial year ended 31 December 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Share of net assets of associates (continued)

Summarised financial information of Prostar and Satin Straits which are accounted for using the equity method is as follows:

(i) Summarised statements of financial position

	Prostar		Satin Straits		Total	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Assets						
Cash and cash equivalents	**2**	9	**18**	36	**20**	45
Other current assets	**25**	–	**–**	–	**25**	–
Non current assets	**94**	110	**32,591**	32,591	**32,685**	32,701
Total assets	**121**	119	**32,609**	32,627	**32,730**	32,746
Liabilities						
Financial liabilities	**(1,145)**	(150)	**(92)**	(97)	**(1,237)**	(247)
Other current liabilities	**–**	(47)	**(61)**	(61)	**(61)**	(108)
Total liabilities	**(1,145)**	(197)	**(153)**	(158)	**(1,298)**	(355)
Net assets/(liabilities)	**(1,024)**	(78)	**32,456**	32,469	**31,432**	32,391

(ii) Summarised statements of comprehensive income

	Prostar		Satin Straits		Total	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Other operating income	**10,233**	16,180	**–**	–	**10,233**	16,180
Other operating expenses	**(11,177)**	(17,717)	**(13)**	(18)	**(11,190)**	(17,735)
Loss before taxation	**(944)**	(1,537)	**(13)**	(18)	**(957)**	(1,555)
Taxation	**–**	(37)	**–**	–	**–**	(37)
Net loss for the financial year	**(944)**	(1,574)	**(13)**	(18)	**(957)**	(1,592)

Notes to the Financial Statements

for the financial year ended 31 December 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Share of net assets of associates (continued)

Summarised financial information of Prostar and Satin Straits which are accounted for using the equity method is as follows (continued):

(iii) Reconciliation of summarised financial information presented to the carrying amount of its interest in associates:

	Prostar		Satin Straits		Total	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Balance as at the beginning of the financial year	**(78)**	(11,151)	**32,469**	32,487	**32,391**	21,336
Net loss for the financial year	**(944)**	(1,574)	**(13)**	(18)	**(957)**	(1,592)
Other reserves	**–**	11,547	**–**	–	**–**	11,547
Translation reserves	**(2)**	1,100	**–**	–	**(2)**	1,100
Balance as at the end of the financial year	**(1,024)**	(78)	**32,456**	32,469	**31,432**	32,391
Equity interest attributable to net assets	**–**	–	**45,000**	45,000	**45,000**	45,000
Accumulated impairment losses	**–**	–	**(35,500)**	(12,500)	**(35,500)**	(12,500)
Carrying value	**–**	–	**9,500**	32,500	**9,500**	32,500

(b) Share of net assets of joint ventures

The details of the joint ventures are as follows:

Name of company	**Country of incorporation**	**Share capital (in RM unless otherwise stated)**	**Effective equity interest 2018 %**	**Effective equity interest 2017 %**	**Principal activities**
Vietnam Securities Corporation ('VSEC')	Vietnam	VND135 billion	**49**	49	Securities brokerage, securities investment, consulting and self trading
RHB GC-Millennium Capital Pte Ltd ('RHB GC')	Singapore	SGD10,000	**40**	40	Investment activities

There are no capital commitments or contingent liabilities relating to the Group's investments in the joint ventures as at 31 December 2018.

Notes to the Financial Statements
for the financial year ended 31 December 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Share of net assets of joint ventures (continued)

Summarised financial information of VSEC and RHB GC which are accounted for using the equity method is as follows:

(i) Summarised statements of financial position

	VSEC		RHB GC		Total	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Assets						
Cash and cash equivalents	**32,424**	32,412	**–**	24	**32,424**	32,436
Other current assets	**446**	451	**98**	62	**544**	513
Non current assets	**32**	–	**–**	–	**32**	–
Total assets	**32,902**	32,863	**98**	86	**33,000**	32,949
Liabilities						
Financial liabilities	**–**	(135)	**(46)**	(32)	**(46)**	(167)
Other current liabilities	**(45)**	(77)	**(22)**	(24)	**(67)**	(101)
Total liabilities	**(45)**	(212)	**(68)**	(56)	**(113)**	(268)
Net assets	**32,857**	32,651	**30**	30	**32,887**	32,681

(ii) Summarised statements of comprehensive income

	VSEC		RHB GC		Total	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest income	**2,118**	2,392	**–**	–	**2,118**	2,392
Interest expense	**(1)**	(2)	**–**	–	**(1)**	(2)
Net interest income	**2,117**	2,390	**–**	–	**2,117**	2,390
Other operating income	**11**	17	**36**	33	**47**	50
Net operating income	**2,128**	2,407	**36**	33	**2,164**	2,440
Other operating expenses	**(1,784)**	(1,413)	**(36)**	(33)	**(1,820)**	(1,446)
Including:						
Depreciation and amortisation	**(30)**	(63)	**–**	–	**(30)**	(63)
Profit before taxation	**344**	994	**–**	–	**344**	994
Taxation	**(140)**	(197)	**–**	–	**(140)**	(197)
Net profit for the financial year	**204**	797	**–**	–	**204**	797

Notes to the Financial Statements
for the financial year ended 31 December 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Share of net assets of joint ventures (continued)

Summarised financial information of VSEC and RHB GC which are accounted for using the equity method is as follows (continued):

(iii) Reconciliation of summarised financial information presented to the carrying amount of its interest in joint ventures:

	VSEC		RHB GC		Total	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Balance as at the beginning of the financial year	**32,651**	34,177	**30**	30	**32,681**	34,207
Net profit for the financial year	**204**	797	**–**	–	**204**	797
Translation reserves	**2**	(2,323)	**–**	–	**2**	(2,323)
Balance as at the end of the financial year	**32,857**	32,651	**30**	30	**32,887**	32,681
Equity interest attributable to net assets	**16,100**	15,999	**12**	12	**16,112**	16,011
Goodwill	**14,204**	14,204	**–**	–	**14,204**	14,204
Accumulated impairment losses	**(13,770)**	(13,770)	**–**	–	**(13,770)**	(13,770)
Exchange differences	**(694)**	(692)	**–**	–	**(694)**	(692)
Carrying value	**15,840**	15,741	**12**	12	**15,852**	15,753

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 PROPERTY, PLANT AND EQUIPMENT

Group	Note	Land RM'000	Buildings RM'000	Renovations and improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
2018								
Cost								
Balance as at the beginning of the financial year		343,000	489,942	541,063	756,396	395,334	23,906	2,549,641
Additions		–	4	33,306	53,576	25,329	1,550	113,765
Disposals		–	–	(632)	(569)	(61)	(357)	(1,619)
Written off		–	–	(17,228)	(27,655)	(9,054)	(4)	(53,941)
Reclassifications		–	–	(3,430)	1,271	2,159	–	–
Reclassification to intangible assets	20	–	–	–	(15,085)	–	–	(15,085)
Exchange differences		162	103	545	276	673	41	1,800
Balance as at the end of the financial year		343,162	490,049	553,624	768,210	414,380	25,136	2,594,561
Accumulated depreciation								
Balance as at the beginning of the financial year		9,793	194,431	346,026	625,242	337,562	19,896	1,532,950
Charge for the financial year	39	597	9,708	34,401	54,866	18,328	1,821	119,721
Disposals		–	–	(490)	(542)	(54)	(321)	(1,407)
Written off		–	–	(16,467)	(27,655)	(9,052)	(4)	(53,178)
Reclassification to intangible assets	20	–	–	–	(7,383)	–	–	(7,383)
Exchange differences		7	53	(197)	371	642	31	907
Balance as at the end of the financial year		10,397	204,192	363,273	644,899	347,426	21,423	1,591,610
Accumulated impairment loss								
Balance as at the beginning of the financial year		–	1,305	–	1,676	–	–	2,981
Exchange differences		–	8	–	–	–	–	8
Balance as at the end of the financial year		–	1,313	–	1,676	–	–	2,989
Net book value as at the end of the financial year		332,765	284,544	190,351	121,635	66,954	3,713	999,962

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Note	Land RM'000	Buildings RM'000	Renovations and improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
2017								
Cost								
Balance as at the beginning of the financial year		346,211	491,684	544,789	690,049	392,334	24,049	2,489,116
Additions		–	–	14,615	73,244	16,347	897	105,103
Disposals		–	–	–	(357)	(8)	(221)	(586)
Written off		–	–	(13,662)	(6,149)	(10,820)	(19)	(30,650)
Reclassification from intangible assets	20	–	–	–	4,700	–	–	4,700
Exchange differences		(3,211)	(1,742)	(4,679)	(5,091)	(2,519)	(800)	(18,042)
Balance as at the end of the financial year		343,000	489,942	541,063	756,396	395,334	23,906	2,549,641
Accumulated depreciation								
Balance as at the beginning of the financial year		9,271	184,854	328,430	581,755	331,437	18,214	1,453,961
Charge for the financial year	39	577	10,238	33,430	53,807	18,855	2,435	119,342
Disposals		–	–	–	(357)	(8)	(128)	(493)
Written off		–	–	(13,251)	(5,832)	(10,821)	(19)	(29,923)
Exchange differences		(55)	(661)	(2,583)	(4,131)	(1,901)	(606)	(9,937)
Balance as at the end of the financial year		9,793	194,431	346,026	625,242	337,562	19,896	1,532,950
Accumulated impairment loss								
Balance as at the beginning of the financial year		–	1,348	–	1,676	–	–	3,024
Exchange differences		–	(43)	–	–	–	–	(43)
Balance as at the end of the financial year		–	1,305	–	1,676	–	–	2,981
Net book value as at the end of the financial year		333,207	294,206	195,037	129,478	57,772	4,010	1,013,710

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Note	Land RM'000	Buildings RM'000	Renovations and improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
2018								
Cost								
Balance as at the beginning of the financial year		212,630	441,437	394,152	565,534	262,902	7,138	1,883,793
Additions		–	–	31,050	45,194	16,702	356	93,302
Disposals		–	–	–	(186)	–	(3)	(189)
Written off		–	–	(3,171)	(20,609)	(5,673)	(4)	(29,457)
Reclassifications		–	–	(2,241)	786	1,455	–	–
Reclassification to intangible assets	20	–	–	–	(4,745)	–	–	(4,745)
Exchange differences		2	36	147	79	(163)	24	125
Balance as at the end of the financial year		212,632	441,473	419,937	586,053	275,223	7,511	1,942,829
Accumulated depreciation								
Balance as at the beginning of the financial year		5,454	182,354	243,536	459,881	230,316	5,514	1,127,055
Charge for the financial year	39	254	8,747	25,880	43,551	12,482	642	91,556
Disposals		–	–	–	(158)	–	(3)	(161)
Written off		–	–	(3,161)	(20,609)	(5,673)	(4)	(29,447)
Reclassification to intangible assets	20	–	–	–	(425)	–	–	(425)
Exchange differences		–	23	119	415	(163)	22	416
Balance as at the end of the financial year		5,708	191,124	266,374	482,655	236,962	6,171	1,188,994
Accumulated impairment loss								
Balance as at the beginning of the financial year		–	304	–	–	–	–	304
Balance as at the end of the financial year		–	304	–	–	–	–	304
Net book value as at the end of the financial year		206,924	250,045	153,563	103,398	38,261	1,340	753,531

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Note	Land RM'000	Buildings RM'000	Renovations and improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
2017								
Cost								
Balance as at the beginning of the financial year		212,675	442,153	399,274	508,692	258,049	6,807	1,827,650
Additions		–	–	8,485	56,639	15,190	567	80,881
Disposals		–	–	–	(6)	–	(158)	(164)
Written off		–	–	(12,875)	(3,730)	(10,187)	(14)	(26,806)
Reclassification from intangible assets	20	–	–	–	4,700	–	–	4,700
Exchange differences		(45)	(716)	(732)	(761)	(150)	(64)	(2,468)
Balance as at the end of the financial year		212,630	441,437	394,152	565,534	262,902	7,138	1,883,793
Accumulated depreciation								
Balance as at the beginning of the financial year		5,199	173,465	232,911	424,947	228,899	5,026	1,070,447
Charge for the financial year	39	255	9,345	23,805	39,216	11,480	628	84,729
Disposals		–	–	–	(5)	–	(73)	(78)
Written off		–	–	(12,741)	(3,746)	(10,191)	(14)	(26,692)
Exchange differences		–	(456)	(439)	(531)	128	(53)	(1,351)
Balance as at the end of the financial year		5,454	182,354	243,536	459,881	230,316	5,514	1,127,055
Accumulated impairment loss								
Balance as at the beginning of the financial year		–	304	–	–	–	–	304
Balance as at the end of the financial year		–	304	–	–	–	–	304
Net book value as at the end of the financial year		207,176	258,779	150,616	105,653	32,586	1,624	756,434

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Accumulated depreciation and impairment loss				
Balance as at the beginning of the financial year	**1,535,931**	1,456,985	**1,127,359**	1,070,751
Balance as at the end of the financial year	**1,594,599**	1,535,931	**1,189,298**	1,127,359

The above property, plant and equipment includes the following assets under construction:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cost				
Renovations and improvements	**23,632**	27,452	**23,632**	26,781

19 GOODWILL

The carrying amounts of goodwill allocated to the Group's and the Bank's CGUs are as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CGU				
Group Retail Banking	**340,615**	340,615	**292,837**	292,837
Group Business Banking	**184,297**	184,297	**174,777**	174,777
Group Wholesale Banking ('GWB')	**2,008,094**	2,008,094	**1,183,928**	1,183,928
– Group Corporate Banking and Group Investment Banking ('CBIB')	**1,110,688**	1,110,688	**314,308**	314,308
– Group Treasury and Global Markets	**897,406**	897,406	**869,620**	869,620
Commercial Indochina Bank	**116,301**	116,301	**–**	–
	2,649,307	2,649,307	**1,651,542**	1,651,542

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by Directors covering a three-year (2017: three-year) period. Cash flows beyond the three-year period are extrapolated using the estimated terminal growth rates and discounted using pre-tax discount rates which reflect the specific risks relating to the CGU. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The cash flow projections are derived based on a number of key factors including the past performance and the management's expectations of the market developments.

19 GOODWILL (CONTINUED)

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Impairment was not required for goodwill arising from all CGUs. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the CGUs to be lower than its carrying amount.

The estimated terminal growth rates and discount rates used for value in use calculation are as follows:

	Discount rate		Terminal growth rate	
	2018 %	**2017 %**	**2018 %**	**2017 %**
CGU				
Group Retail Banking	**9.0**	8.5	**4.5**	5.0
Group Business Banking	**9.1**	8.4	**4.5**	5.0
GWB				
– Group CBIB	**9.2**	8.6	**4.5**	5.0
– Group Treasury and Global Markets	**9.3**	8.7	**4.5**	5.0
Commercial Indochina Bank	**13.4**	13.6	**6.9**	6.0

20 INTANGIBLE ASSETS

Group	Note	Customer relationship RM'000	Brand RM'000	Trading rights and memberships RM'000	Computer software license RM'000	Total RM'000
2018						
Cost						
Balance as at the beginning of the financial year		**22,333**	**25,098**	**2,695**	**1,292,393**	**1,342,519**
Additions		**–**	**–**	**–**	**207,015**	**207,015**
Written off		**–**	**–**	**–**	**(5,400)**	**(5,400)**
Reclassification from property, plant and equipment	18	**–**	**–**	**–**	**15,085**	**15,085**
Exchange differences		**–**	**–**	**66**	**89**	**155**
Balance as at the end of the financial year		**22,333**	**25,098**	**2,761**	**1,509,182**	**1,559,374**
Accumulated amortisation						
Balance as at the beginning of the financial year		**11,538**	**22,709**	**1,303**	**818,100**	**853,650**
Amortisation for the financial year	39	**2,233**	**494**	**–**	**97,987**	**100,714**
Written off		**–**	**–**	**–**	**(5,372)**	**(5,372)**
Reclassification from property, plant and equipment	18	**–**	**–**	**–**	**7,383**	**7,383**
Exchange differences		**–**	**–**	**31**	**530**	**561**
Balance as at the end of the financial year		**13,771**	**23,203**	**1,334**	**918,628**	**956,936**
Net book value as at the end of the financial year		**8,562**	**1,895**	**1,427**	**590,554**	**602,438**

Notes to the Financial Statements

for the financial year ended 31 December 2018

20 INTANGIBLE ASSETS (CONTINUED)

Group	Note	Customer relationship RM'000	Brand RM'000	Trading rights and memberships RM'000	Computer software license RM'000	Total RM'000
2017						
Cost						
Balance as at the beginning of the financial year		22,333	25,098	2,783	1,161,512	1,211,726
Additions		–	–	–	176,490	176,490
Written off		–	–	–	(37,642)	(37,642)
Reclassification to property, plant and equipment	18	–	–	–	(4,700)	(4,700)
Exchange differences		–	–	(88)	(3,267)	(3,355)
Balance as at the end of the financial year		22,333	25,098	2,695	1,292,393	1,342,519
Accumulated amortisation						
Balance as at the beginning of the financial year		9,304	22,215	1,354	750,780	783,653
Amortisation for the financial year	39	2,234	494	–	78,281	81,009
Written off		–	–	–	(8,670)	(8,670)
Exchange differences		–	–	(51)	(2,291)	(2,342)
Balance as at the end of the financial year		11,538	22,709	1,303	818,100	853,650
Accumulated impairment loss						
Balance as at the beginning of the financial year		–	–	–	29,069	29,069
Reversal for the financial year	42	–	–	–	(336)	(336)
Written off		–	–	–	(28,733)	(28,733)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		10,795	2,389	1,392	474,293	488,869

Notes to the Financial Statements

for the financial year ended 31 December 2018

20 INTANGIBLE ASSETS (CONTINUED)

Bank	Note	Computer software license 2018 RM'000	2017 RM'000
Cost			
Balance as at the beginning of the financial year		**1,112,757**	971,952
Additions		**189,577**	148,414
Written off		**(4,157)**	(1,631)
Reclassification from/(to) property, plant and equipment	18	**4,745**	(4,700)
Exchange differences		**230**	(1,278)
Balance as at the end of the financial year		**1,303,152**	1,112,757
Accumulated amortisation			
Balance as at the beginning of the financial year		**697,067**	636,799
Amortisation for the financial year	39	**81,998**	62,664
Written off		**(4,157)**	(1,392)
Reclassification from property, plant and equipment	18	**425**	–
Exchange differences		**257**	(1,004)
Balance as at the end of the financial year		**775,590**	697,067
Net book value as at the end of the financial year		**527,562**	415,690

21 DEPOSITS FROM CUSTOMERS

	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
(a) By type of deposits				
Demand deposits	**36,284,375**	40,599,769	**30,229,454**	33,819,798
Savings deposits	**10,107,052**	9,861,321	**8,404,126**	8,302,388
Fixed/investment deposits	**131,278,948**	115,826,111	**87,325,687**	78,537,835
Negotiable instruments of deposits	**1,185,955**	577,830	**1,185,955**	577,727
	178,856,330	166,865,031	**127,145,222**	121,237,748
(b) By type of customer				
Government and statutory bodies	**11,817,181**	8,947,445	**4,631,954**	4,634,166
Business enterprises	**105,062,527**	98,815,607	**73,724,271**	68,443,007
Individuals	**56,325,426**	53,968,119	**43,595,983**	43,546,269
Other financial institutions	**5,651,196**	5,133,860	**5,193,014**	4,614,306
	178,856,330	166,865,031	**127,145,222**	121,237,748

Notes to the Financial Statements

for the financial year ended 31 December 2018

21 DEPOSITS FROM CUSTOMERS (CONTINUED)

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(c) By maturity structure of fixed/investment deposits and negotiable instruments of deposits				
Due within six months	**96,317,780**	95,043,566	**63,439,942**	66,160,033
Six months to one year	**33,947,548**	20,406,629	**23,149,265**	12,010,770
One year to three years	**1,299,374**	435,387	**1,113,157**	428,470
Three years to five years	**900,201**	518,359	**809,278**	516,289
	132,464,903	116,403,941	**88,511,642**	79,115,562

22 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Licensed banks	**16,057,418**	17,268,724	**16,846,493**	20,926,529
Licensed Islamic banks	**1,598,865**	2,945,973	**3,256**	5,912
Licensed investment banks	**191,678**	348,905	**298,982**	618,214
BNM	**415,127**	500,867	**374,670**	480,178
Other financial institutions	**27,806**	15,268	**2,784**	575
	18,290,894	21,079,737	**17,526,185**	22,031,408

23 OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligations to repurchase the securities are reflected as a liability on the statements of financial position.

The financial assets sold under repurchase agreements are as follows:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Financial investments at amortised cost/financial investments HTM	**2,040,000**	615,000	**2,970,000**	1,600,000
	2,040,000	615,000	**2,970,000**	1,600,000

24 CLIENTS' AND BROKERS' BALANCES

	Group	
	2018 RM'000	**2017 RM'000**
Amounts due to:		
– Clients	**772,714**	962,428
– Brokers	**39,954**	168,738
– Clearing houses and stock exchanges	**29,114**	238,229
	841,782	1,369,395

25 GENERAL INSURANCE CONTRACT LIABILITIES

	Group	
	2018 RM'000	**2017 RM'000**
Claims liabilities	**751,931**	692,187
Premium liabilities	**342,183**	306,123
	1,094,114	998,310

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
2018				
Claims reported by policyholders		**495,358**	**(305,833)**	**189,525**
Incurred but not reported claims ('IBNR')		**256,573**	**(106,048)**	**150,525**
Claims liabilities	(a)	**751,931**	**(411,881)**	**340,050**
Premium liabilities	(b)	**342,183**	**(99,355)**	**242,828**
Total		**1,094,114**	**(511,236)**	**582,878**
2017				
Claims reported by policyholders		481,109	(291,147)	189,962
IBNR		211,078	(86,538)	124,540
Claims liabilities	(a)	692,187	(377,685)	314,502
Premium liabilities	(b)	306,123	(105,075)	201,048
Total		998,310	(482,760)	515,550

Notes to the Financial Statements

for the financial year ended 31 December 2018

25 GENERAL INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross RM'000	Reinsurance RM'000	Net RM'000
(a) Claims liabilities			
2018			
Balance as at the beginning of the financial year	**692,187**	**(377,685)**	**314,502**
Claims incurred in current accident year:			
– Paid	**185,154**	**(43,426)**	**141,728**
– Case reserves	**278,313**	**(122,538)**	**155,775**
– IBNR	**276,882**	**(93,486)**	**183,396**
Claims incurred in prior accident year:			
– Paid	**213,850**	**(78,843)**	**135,007**
– Case reserves	**(663,068)**	**230,121**	**(432,947)**
– IBNR	**(231,387)**	**73,976**	**(157,411)**
Balance as at the end of the financial year	**751,931**	**(411,881)**	**340,050**
2017			
Balance as at the beginning of the financial year	588,466	(287,126)	301,340
Claims incurred in current accident year:			
– Paid	155,796	(50,365)	105,431
– Case reserves	191,634	(112,334)	79,300
– IBNR	123,880	(52,178)	71,702
Claims incurred in prior accident year:			
– Paid	163,569	(58,107)	105,462
– Case reserves	(427,194)	139,068	(288,126)
– IBNR	(103,964)	43,357	(60,607)
Balance as at the end of the financial year	692,187	(377,685)	314,502

25 GENERAL INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross RM'000	Reinsurance RM'000	Net RM'000
(b) Premium liabilities			
2018			
Balance as at the beginning of the financial year	**306,123**	**(105,075)**	**201,048**
Premium written for the financial year	**786,647**	**(238,177)**	**548,470**
Premium earned during the financial year	**(750,587)**	**243,897**	**(506,690)**
Balance as at the end of the financial year	**342,183**	**(99,355)**	**242,828**
2017			
Balance as at the beginning of the financial year	283,717	(91,185)	192,532
Premium written for the financial year	690,897	(230,900)	459,997
Premium earned during the financial year	(668,491)	217,010	(451,481)
Balance as at the end of the financial year	306,123	(105,075)	201,048

26 OTHER LIABILITIES

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Other creditors and accruals		**1,612,110**	1,123,886	**1,214,257**	514,606
Amount payable for redemption units		**13,955**	40,745	**–**	–
Contract liabilities	(i)	**61,418**	97,913	**42,000**	63,000
Short term employee benefits		**383,495**	368,423	**288,683**	257,227
Accrual for operational expenses		**236,914**	196,659	**147,185**	126,696
Prepaid instalments		**47,328**	55,079	**47,189**	54,609
Cash collateral pledged for derivative transactions		**321,125**	530,465	**321,125**	530,465
Remisiers' trust deposits		**62,917**	62,902	**–**	–
Amount due to trust funds		**112,679**	160,214	**–**	–
Amount due to subsidiaries		**–**	–	**21,684**	26,943
Puttable instruments		**70,615**	78,825	**–**	–
		2,922,556	2,715,111	**2,082,123**	1,573,546

(i) Contract liabilities were reduced by RM36,495,000 and RM21,000,000 for the Group and the Bank respectively as a result of recognition of the bancassurance/bankatakaful fees and recognition of fee income that were included in contract liabilities balance at the beginning of the year.

27 RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD ('CAGAMAS')

Recourse obligation on loans sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Group and the Bank undertake to administer the loans on behalf of Cagamas and to buy back any loans which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the statements of financial position. The loans are not de-recognised and are analysed in Note 9.

Notes to the Financial Statements

for the financial year ended 31 December 2018

28 BORROWINGS

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unsecured					
Revolving credits:					
– Hong Kong Dollar ('HKD')	(a)	**39,584**	16,576	**–**	–
Term loans:					
– United States Dollar ('USD')	(b(i))	**981,849**	978,068	**981,849**	978,068
– Thai Baht ('THB')	(b(ii))	**–**	62,180	**–**	–
– Singapore Dollar ('SGD')	(b(iii))	**90,999**	–	**–**	–
Promissory note:					
– Indonesia Rupiah ('IDR')	(c(i))	**57,706**	–	**–**	–
– THB	(c(ii))	**12,747**	96,895	**–**	–
		1,182,885	1,153,719	**981,849**	978,068
Scheduled repayment of borrowings:					
– Within one year		**335,756**	333,119	**134,720**	157,468
– One year to three years		**847,129**	820,600	**847,129**	820,600
		1,182,885	1,153,719	**981,849**	978,068

The borrowings of the Group and the Bank are as follows:

(a) Revolving credits

The HKD revolving credit facilities of the Group bear interest at rates ranging from 1.75% to 7.10% (2017: 1.69% to 5.18%) per annum.

(b) Term loans

(i) USD term loans

The USD term loans of the Group and the Bank bear interest at rates ranging from 1.77% to 3.81% (2017: 1.12% to 2.69%) per annum.

(ii) THB term loans

The THB term loans of the Group in 2017 bear interest at rates ranging from 2.50% to 3.60% per annum.

(iii) SGD term loan

The SGD term loan of the Group bear interest at rates ranging from 1.00% to 2.59% per annum which matured in January 2019.

(c) Promissory note

(i) The IDR promissory note facilities of the Group in 2018 bear interest at rates ranging from 6.75% to 9.00% per annum.

(ii) The THB promissory note facilities of the Group bear interest at rates ranging from 1.85% to 2.90% (2017: 1.85% to 3.25%) per annum.

Notes to the Financial Statements

for the financial year ended 31 December 2018

29 SENIOR DEBT SECURITIES

	Group and Bank	
	2018 RM'000	**2017 RM'000**
USD300 million 3.088% senior debt securities due in 2019	**1,248,208**	1,221,292
USD500 million 2.503% senior debt securities due in 2021	**2,075,456**	2,031,289
	3,323,664	3,252,581

Issuance date	**Tranche**	**Principal USD'million**	**Maturity date**	**Interest rate**	**Interest payment**
3 October 2014	I	300	3 October 2019	3.088% per annum	Accrued and payable semi-annually in arrears
6 October 2016	II	500	6 October 2021	2.503% per annum	Accrued and payable semi-annually in arrears

30 HYBRID TIER-1 CAPITAL SECURITIES

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
RM370 million Hybrid Tier-1 Capital Securities	**377,597**	377,083	**377,597**	377,083
RM230 million Hybrid Tier-1 Capital Securities	**225,624**	225,583	**230,638**	230,595
	603,221	602,666	**608,235**	607,678

Issuance date	**Tranche**	**Principal RM'million**	**Maturity date**	**Interest rate**	**Interest payment**
31 March 2009	I	370	31 March 2039 (callable with step-up in 2019)	8.00% per annum to 2019, thereafter at 9.00% per annum if not called	Accrued and payable semi-annually in arrears
17 December 2009	II	230	16 December 2039 (callable with step-up in 2019)	6.75% per annum to 2019, thereafter at 7.75% per annum if not called	Accrued and payable semi-annually in arrears

Notes to the Financial Statements
for the financial year ended 31 December 2018

31 SUBORDINATED OBLIGATIONS

		Group		Bank	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
5.60% RM300 million Tier II Subordinated Notes 2010/2025	(a)	**302,946**	302,900	**302,946**	302,900
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	(b)	**503,187**	503,187	**–**	–
4.99% RM1 billion Tier II Subordinated Notes 2014/2024	(c)	**1,023,925**	1,023,788	**1,023,925**	1,023,788
4.95% RM200 million Tier II Subordinated Notes 2015/2025	(d)	**202,061**	202,061	**–**	–
4.75% RM500 million Tier II Subordinated Notes 2015/2025	(e)	**503,363**	503,256	**503,363**	503,256
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	(b)	**252,139**	252,206	**–**	–
4.82% RM750 million Tier II Subordinated Notes 2017/2027	(e)	**758,832**	758,694	**758,832**	758,694
4.90% RM200 million Tier II Subordinated Notes 2017/2027	(d)	**202,202**	202,202	**–**	–
		3,748,655	3,748,294	**2,589,066**	2,588,638

The subordinated obligations comprise unsecured liabilities of the Bank and its investment bank and islamic bank subsidiaries and are subordinated to the senior indebtedness in accordance with their respective terms and conditions of issuance and qualify as Tier II capital as disclosed in Note 52 for the purpose of determining the capital adequacy ratios of the respective subsidiaries.

(a) 5.60% RM300 million Tier II Subordinated Notes 2010/2025

On 29 April 2010, the Bank issued RM300 million nominal value of Subordinated Notes, being part of RM3 billion in nominal value of Subordinated Notes and/or Senior Notes under a Medium Term Note Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2010/2025	300	29 April 2025 (callable with step-up in 2020)	5.60% per annum chargeable to 29 April 2020 (but exclusive of payment date), thereafter on step-up coupon rate of 0.5% per annum	Accrued and payable semi-annually in arrears

31 SUBORDINATED OBLIGATIONS (CONTINUED)

(b) 4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024 and 4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027

On 15 May 2014, RHB Islamic Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1 billion Subordinated Sukuk Programme.

On 27 April 2017, RHB Islamic Bank has further issued RM250 million nominal value of Subordinated Sukuk Murabahah under the same RM1 billion Subordinated Sukuk programme.

On 25 July 2018, the Subordinated Sukuk programme has been upsized from RM1 billion to RM5 billion.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2014/2024	500	15 May 2024 (callable in 2019)	4.95% per annum chargeable to 15 May 2024	Accrued and payable semi-annually in arrears
2017/2027	250	27 April 2027 (callable in 2022)	4.88% per annum chargeable to 27 April 2027	Accrued and payable semi-annually in arrears

(c) 4.99% RM1 billion Tier II Subordinated Notes 2014/2024

On 8 July 2014, the Bank issued RM1 billion nominal value of Subordinated Notes, being part of RM3 billion Subordinated Notes and/or Senior Notes Medium Term Note Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2014/2024	1,000	7 July 2024 (callable in 2019)	4.99% per annum chargeable to 7 July 2024	Accrued and payable semi-annually in arrears

(d) 4.95% RM200 million Tier II Subordinated Notes 2015/2025 and 4.90% RM200 million Tier II Subordinated Notes 2017/2027

On 16 April 2015, RHB Investment Bank issued RM200 million nominal value of Subordinated Notes, being part of RM1 billion Multi-Currency Medium Term Note Programme ('MCMTN Programme').

On 11 October 2017, RHB Investment Bank has further issued RM200 million nominal value of Subordinated Notes, being part of the same RM1 billion MCMTN Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2015/2025	200	16 April 2025 (Callable in 2020)	4.95% per annum chargeable to 16 April 2025	Accrued and payable semi-annually in arrears
2017/2027	200	11 October 2027 (Callable in 2022)	4.90% per annum chargeable to 11 October 2027	Accrued and payable semi-annually in arrears

Notes to the Financial Statements
for the financial year ended 31 December 2018

31 SUBORDINATED OBLIGATIONS (CONTINUED)

(e) 4.75% RM500 million Tier II Subordinated Notes 2015/2025 and 4.82% RM750 million Tier II Subordinated Notes 2017/2027

On 8 May 2015, the Bank issued RM500 million nominal value of Subordinated Notes, being part of RM5 billion Multi-Currency Medium Term Note Programme ('MCMTN Programme').

On 27 September 2017, the Bank has further issued RM750 million nominal value of Subordinated Notes, being part of the same RM5 billion MCMTN Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2015/2025	500	8 May 2025 (Callable in 2020)	4.75% per annum chargeable to 8 May 2025	Accrued and payable semi-annually in arrears
2017/2027	750	27 September 2027 (Callable in 2022)	4.82% per annum chargeable to 27 September 2027	Accrued and payable semi-annually in arrears

(f) The Group and the Bank did not have any defaults of principal and interest or other breaches with respect to its subordinated obligations during the financial years ended 31 December 2018 and 2017.

32 SHARE CAPITAL

	Group and Bank			
	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid:				
Ordinary shares				
Balance as at the beginning of the financial year	**4,010,045**	**6,994,103**	4,010,045	4,010,045
Transfer from share premium account pursuant to Companies Act 2016	**–**	**–**	–	2,984,058
Balance as at the end of the financial year	**4,010,045**	**6,994,103**	4,010,045	6,994,103

There were no issue of shares in the Bank during the current financial year.

33 RESERVES

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Statutory reserves	(a)	**513**	513	**–**	–
Regulatory reserves	(b)	**249,687**	1,797,903	**126,230**	1,484,902
FVOCI/AFS reserves	(c)	**376,108**	275,937	**349,347**	271,524
Translation reserves	(d)	**684,275**	628,753	**371,680**	343,563
Other reserves		**23,331**	23,331	**–**	–
Retained profits		**15,029,970**	13,429,174	**11,461,418**	10,333,461
		16,363,884	16,155,611	**12,308,675**	12,433,450

(a) Statutory reserves represent non-distributable profits held by the Thailand's stockbroking subsidiary in compliance with Section 116 of the Public Limited Company Act B.E. 2535 in Thailand.

(b) Regulatory reserves represent the Group's and the Bank's compliance with BNM's Revised Policy Documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions with effect from 1 January 2018, whereby the Bank and its domestic banking subsidiaries must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

Prior to 1 January 2018, the Group and the Bank comply with BNM's Policy on Classification and Impairment Provisions for Loans/Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowances.

(c) FVOCI reserves represents the cumulative gains and losses arising on the revaluation of investment in equity instruments designated as at FVOCI, net of cumulative gain/loss transferred to retained earnings upon disposal and investments in debt instruments classified as FVOCI, net of cumulative loss allowance recognised on these investments and cumulative gain/loss reclassified to income statements upon disposal or reclassification of these investments.

AFS reserves arise from a change in the fair value of financial investments classified as AFS. The unrealised gains or losses are transferred to the income statements upon disposal, de-recognition or impairment of such securities.

(d) Translation reserves comprise all foreign exchange differences from the translation of the financial statements of foreign operations, subsidiaries and joint ventures, and the effect of the effective portion of net investment hedges.

Notes to the Financial Statements
for the financial year ended 31 December 2018

34 NON-CONTROLLING INTERESTS ('NCI')

	Group	
	2018 RM'000	2017 RM'000
Balance as at the beginning of the financial year		
– As previously reported	**34,714**	29,089
– Effect of adoption of MFRS 9	**(457)**	–
– As restated	**34,257**	29,089
Share of profit during the financial year	**3,716**	5,895
Share of AFS reserves during the financial year, net of tax	**–**	(11)
Actuarial gain on defined benefit plan of subsidiaries, net of tax	**62**	7
Dilution of interest in a subsidiary	**–**	(12)
Exchange differences	**(74)**	(254)
Balance as at the end of the financial year	**37,961**	34,714

35 INTEREST INCOME

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loans and advances	**6,307,919**	6,072,485	**5,947,154**	5,682,915
Money at call and deposits and placements with banks and other financial institutions	**203,801**	204,461	**584,783**	561,100
Securities purchased under resale agreements	**–**	1,572	**281**	1,305
Financial assets at FVTPL	**76,599**	34,031	**75,583**	33,903
Financial investments AFS	**–**	756,523	**–**	703,273
Financial investments HTM	**–**	608,086	**–**	588,636
Financial assets at FVOCI – debt instruments	**903,620**	–	**867,508**	–
Financial investments at amortised cost	**507,198**	–	**466,955**	–
Others	**16,035**	28,672	**12,345**	20,948
	8,015,172	7,705,830	**7,954,609**	7,592,080
Of which:				
Interest income accrued on impaired financial assets	**124,809**	152,064	**105,785**	133,037

Notes to the Financial Statements

for the financial year ended 31 December 2018

36 INTEREST EXPENSE

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Deposits and placements of banks and other financial institutions	**579,047**	440,346	**590,403**	511,682
Deposits from customers	**3,299,980**	3,190,544	**3,154,346**	2,996,731
Obligations on securities sold under repurchase agreements	**6,730**	2,347	**24,624**	53,060
Recourse obligation on loans sold to Cagamas	**123,205**	104,828	**123,205**	104,828
Subordinated obligations	**146,544**	220,856	**126,844**	198,595
Senior debt securities	**90,064**	120,906	**90,064**	120,906
Hybrid Tier-1 Capital Securities	**45,220**	45,186	**45,558**	45,525
Borrowings	**38,118**	20,436	**30,054**	12,392
Others	**31,030**	38,574	**28,244**	35,840
	4,359,938	4,184,023	**4,213,342**	4,079,559

37 OTHER OPERATING INCOME

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Fee income				
Service charges and fees	**174,422**	171,431	**153,730**	148,311
Commission	**163,773**	155,174	**181,643**	173,944
Guarantee fees	**37,282**	48,318	**34,659**	46,372
Commitment fees	**47,835**	47,898	**42,754**	44,986
Net brokerage income	**272,395**	319,211	**–**	–
Fund management fees	**221,021**	235,097	**–**	–
Unit trust fee income	**52,951**	108,509	**–**	–
Corporate advisory fees	**46,178**	48,359	**–**	–
Underwriting and arrangement fees	**7,214**	38,921	**–**	–
Other fee income	**69,872**	62,897	**21,580**	21,128
	1,092,943	1,235,815	**434,366**	434,741
Fee and commission expenses	**(133,371)**	(196,094)	**–**	–
	959,572	1,039,721	**434,366**	434,741
Net gain/(loss) arising from financial assets at FVTPL				
– Net (loss)/gain on disposal	**(13,965)**	27,599	**5,533**	(27,491)
– Unrealised net (loss)/gain on revaluation	**(31,824)**	35,575	**(12,615)**	24,890
– Dividend income	**44,938**	14,848	**–**	–
	(851)	78,022	**(7,082)**	(2,601)

Notes to the Financial Statements

for the financial year ended 31 December 2018

37 OTHER OPERATING INCOME (CONTINUED)

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Net gain on revaluation of derivatives		**121,431**	77,542	**44,285**	893
Net gain on fair value hedges	13	**56**	115	**56**	115
Net gain arising from financial investments AFS					
– Net gain on disposal		**–**	51,494	**–**	49,880
– Dividend income		**–**	39,075	**–**	6,515
		–	90,569	**–**	56,395
Net gain arising from financial investments HTM					
– Net gain on early redemption		**–**	13,866	**–**	13,866
Net gain arising from derecognition of financial investments at amortised cost		**275**	–	**247**	–
Net gain arising from financial assets at FVOCI					
– Net gain on debt instruments on disposal		**98,798**	–	**77,529**	–
– Dividend on equity instruments still held as at year end		**3,377**	–	**2,656**	–
		102,175	–	**80,185**	–
Dividend income from subsidiaries		**–**	–	**9,259**	97,075
Other income					
Net foreign exchange gain		**315,203**	236,464	**249,128**	231,877
Insurance underwriting surplus before management expenses		**165,294**	190,497	**–**	–
Gain/(Loss) on disposal of property, plant and equipment		**(17)**	50	**71**	18
Rental income		**2,006**	3,618	**12,211**	11,915
Other operating income		**50,945**	42,671	**46,871**	38,359
Other non-operating income		**5,963**	10,556	**3,148**	1,818
		539,394	483,856	**311,429**	283,987
		1,722,052	1,783,691	**872,745**	884,471

Notes to the Financial Statements

for the financial year ended 31 December 2018

38 INCOME FROM ISLAMIC BANKING BUSINESS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Income derived from investment of depositors' fund	**2,349,655**	1,906,333	**4,338**	8
Income derived from investment account funds	**410,557**	375,939	**–**	–
Income derived from investment of shareholders' fund	**196,554**	98,002	**–**	–
	2,956,766	2,380,274	**4,338**	8
Income attributable to depositors	**(1,528,439)**	(1,301,397)	**(3,782)**	(14)
	1,428,327	1,078,877	**556**	(6)
Of which:				
Financing income earned on impaired financing and advances	**11,570**	10,886	**–**	–

39 OTHER OPERATING EXPENSES

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Personnel costs				
Salaries, bonuses, wages and allowances	**1,588,204**	1,493,490	**990,652**	939,003
Defined contribution plan	**221,348**	209,817	**146,673**	144,500
Other staff related costs	**195,774**	163,503	**108,415**	96,310
	2,005,326	1,866,810	**1,245,740**	1,179,813
Establishment costs				
Property, plant and equipment:				
– Depreciation	**119,721**	119,342	**91,556**	84,729
– Written off	**763**	727	**10**	114
Intangible assets:				
– Amortisation	**100,714**	81,009	**81,998**	62,664
– Written off	**28**	239	**–**	239
Rental of premises	**105,585**	105,416	**57,762**	59,040
Rental of equipment	**13,475**	13,335	**12,475**	12,657
Insurance	**32,291**	30,792	**32,458**	30,748
Water and electricity	**31,454**	30,301	**19,087**	18,709
Repair and maintenance	**31,610**	32,333	**23,480**	23,017
Security and escorting expenses	**43,072**	41,063	**42,564**	40,080
Information technology expenses	**253,815**	230,648	**153,271**	133,276
Others	**8,514**	13,959	**–**	–
	741,042	699,164	**514,661**	465,273

Notes to the Financial Statements
for the financial year ended 31 December 2018

39 OTHER OPERATING EXPENSES (CONTINUED)

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Marketing expenses				
Sales commission	**90,473**	75,335	**59,107**	59,471
Advertisement and publicity	**64,868**	67,112	**48,823**	48,171
Others	**89,285**	107,331	**37,190**	35,999
	244,626	249,778	**145,120**	143,641
Administration and general expenses				
Communication expenses	**162,260**	163,842	**96,575**	95,873
Auditors' remuneration (Note (i))	**10,224**	7,687	**6,369**	3,600
Legal and professional fees	**52,434**	48,947	**113,615**	103,029
Others	**141,743**	147,953	**83,940**	84,438
	366,661	368,429	**300,499**	286,940
	3,357,655	3,184,181	**2,206,020**	2,075,667

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(i) Auditors' remuneration				
(a) Audit:				
Statutory audit:				
– Malaysia	**2,884**	2,579	**1,677**	1,462
– Overseas	**3,504**	3,543	**1,163**	1,116
Limited review	**488**	514	**431**	437
Other audit related	**300**	300	**200**	200
	7,176	6,936	**3,471**	3,215
(b) Non-audit:				
– Malaysia	**3,048**	751	**2,898**	385
	3,048	751	**2,898**	385
	10,224	7,687	**6,369**	3,600

Included in the personnel costs is the Group Managing Director's remuneration for the Group and the Bank, as disclosed in Note 40.

Included in administration and general expenses of the Group and the Bank are other directors' remuneration as disclosed in Note 40.

Notes to the Financial Statements

for the financial year ended 31 December 2018

40 DIRECTORS' REMUNERATION

Group and Bank	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
2018				
Group Managing Director				
Dato' Khairussaleh Ramli	**2,721**	**35**	**1,750**	**4,506**

In addition to the above, during the financial year ended 31 December 2018, the Group Managing Director who led the achievement of the Group's short and long term business objectives, was awarded a sum of RM3,360,000 (inclusive of the employer's EPF contribution) under the Group's Cash Retention Scheme. The payout under this retention scheme was based on the Group Managing Director's performance over the 4-year period from 2014 to 2017.

2017				
Group Managing Director				
Dato' Khairussaleh Ramli	2,594	35	3,600	6,229

	Group				Bank			
	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
2018								
Non-Executive Directors								
Tan Sri Azlan Zainol	**414**	**24**	**354**	**792**	**200**	**24**	**311**	**535**
Tan Sri Saw Choo Boon	**340**	**12**	**193**	**545**	**175**	**–**	**124**	**299**
Abdul Aziz Peru Mohamed	**509**	**3**	**112**	**624**	**175**	**–**	**23**	**198**
Tan Sri Ong Leong Huat @ Wong Joo Hwa	**360**	**–**	**191**	**551**	**175**	**–**	**101**	**276**
Mohamed Ali Ismaeil Ali Alfahim	**175**	**–**	**17**	**192**	**175**	**–**	**17**	**192**
Tan Sri Dr Rebecca Fatima Sta Maria	**310**	**–**	**129**	**439**	**175**	**–**	**65**	**240**
Ong Ai Lin	**310**	**–**	**205**	**515**	**175**	**–**	**93**	**268**
Lim Cheng Teck	**16**	**–**	**11**	**27**	**16**	**–**	**11**	**27**
	2,434	**39**	**1,212**	**3,685**	**1,266**	**24**	**745**	**2,035**

Notes to the Financial Statements
for the financial year ended 31 December 2018

40 DIRECTORS' REMUNERATION (CONTINUED)

	Group				Bank			
	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
2017								
Non-executive Directors								
Tan Sri Azlan Zainol	429	54	271	754	200	30	226	456
Tan Sri Saw Choo Boon	242	–	181	423	175	–	162	337
Abdul Aziz Peru Mohamed	502	–	132	634	175	–	38	213
Tan Sri Ong Leong Huat @ Wong Joo Hwa	384	–	191	575	175	–	78	253
Mohamed Ali Ismaeil Ali Alfahim	175	–	20	195	175	–	20	195
Tan Sri Dr Rebecca Fatima Sta Maria	310	–	111	421	175	–	51	226
Ong Ai Lin	133	–	71	204	88	–	42	130
Ong Seng Pheow	401	32	211	644	155	–	60	215
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	182	–	146	328	87	–	51	138
	2,758	86	1,334	4,178	1,405	30	728	2,163

Note: During the financial year, Directors of the Group and the Bank are covered under the Directors' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Group and the Bank subject to the term of the policy. The total amount of Directors' Liability Insurance effected for the Directors of the Group and the Bank was RM200 million (2017: RM200 million). The total amount of premium paid for the Directors' Liability Insurance by the Group and the Bank was RM816,000 and RM688,000 (2017: RM816,000 and RM688,000) respectively.

41 ALLOWANCE FOR CREDIT LOSSES ON FINANCIAL ASSETS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Charge/(Writeback)				
Loans, advances and financing:				
– Net charge	**425,425**	535,539	**295,255**	376,853
– Bad debts recovered	**(271,299)**	(269,445)	**(255,440)**	(256,564)
– Bad debts written off	**168,295**	151,299	**146,568**	137,568
	322,421	417,393	**186,383**	257,857
Financial assets at FVOCI	**(1,165)**	218,674	**(1,400)**	215,014
Financial investments at amortised cost	**(11,279)**	(2,668)	**(13,087)**	(795)
Other financial assets	**(3,975)**	9,390	**935**	–
	306,002	642,789	**172,831**	472,076

42 IMPAIRMENT LOSSES MADE/(WRITTEN BACK) ON OTHER NON-FINANCIAL ASSETS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Investment in an associate	**23,000**	–	**–**	–
Intangible assets	**–**	(336)	**–**	–
	23,000	(336)	**–**	–

43 TAXATION

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income tax based on profit for the financial year:					
– Malaysian income tax		**821,006**	590,860	**617,633**	413,689
– Overseas tax		**12,253**	13,172	**(582)**	2,131
Deferred tax	15	**(66,975)**	18,844	**(53,697)**	19,349
		766,284	622,876	**563,354**	435,169
Under/(Over) provision in respect of prior financial years		**43,859**	(20,784)	**38,120**	(20,495)
		810,143	602,092	**601,474**	414,674

Notes to the Financial Statements

for the financial year ended 31 December 2018

43 TAXATION (CONTINUED)

The numerical reconciliation between the applicable statutory income tax rate and the effective income tax rate of the Group and the Bank are as below:

	Group		Bank	
	2018 %	2017 %	**2018 %**	2017 %
Tax at Malaysian statutory tax rate	**24.0**	24.0	**24.0**	24.0
Tax effects in respect of:				
Effects of different tax rate in Labuan/other countries	**(0.8)**	(0.4)	**–**	–
Non-taxable income	**(0.6)**	(2.2)	**(0.1)**	(1.7)
Non-allowable expenses	**1.3**	2.4	**0.9**	1.1
Temporary differences not recognised in prior financial years	**0.3**	–	**0.4**	0.1
Current year loss not recognised as deferred tax assets during the financial year	**0.4**	0.5	**–**	–
Under/(Over) provision in respect of prior financial years	**1.4**	(0.8)	**1.7**	(1.1)
	26.0	23.5	**26.9**	22.4

44 EARNINGS PER SHARE ('EPS')

(a) Basic earnings per share

Basic EPS is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2018	**2017**
Net profit attributable to equity holders (RM'000)	**2,305,196**	1,950,145
Weighted average number of ordinary shares in issue ('000)	**4,010,045**	4,010,045
Basic earnings per share (sen)	**57.5**	48.6

(b) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding as at 31 December 2018. As a result, the diluted EPS equal to the basic EPS for financial year ended 31 December 2018.

45 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

Attributable to equity holders of the Group:

	Group		
	Before tax RM'000	**Tax benefits RM'000**	**Net of tax RM'000**
2018			
Financial assets at FVOCI			
– Net fair value gain, net amount transfer to income statements and changes in expected credit losses	**33,315**	**(7,994)**	**25,321**
Actuarial gain on defined benefit plan of subsidiaries	**8,141**	**(374)**	**7,767**
	41,456	**(8,368)**	**33,088**
2017			
Financial investments AFS			
– Net fair value gain and net amount transfer to income statements	255,289	(59,919)	195,370
Actuarial gain on defined benefit plan of subsidiaries	882	(157)	725
	256,171	(60,076)	196,095

Attributable to equity holders of the Bank:

	Bank		
	Before tax RM'000	**Tax benefits RM'000**	**Net of tax RM'000**
2018			
Financial assets at FVOCI			
– Net fair value gain, net amount transfer to income statements and changes in expected credit losses	**12,609**	**(3,719)**	**8,890**
2017			
Financial investments AFS			
– Net fair value gain and net amount transfer to income statements	204,284	(51,603)	152,681

Notes to the Financial Statements
for the financial year ended 31 December 2018

46 DIVIDENDS

Dividends declared or proposed are as follows:

	Group and Bank			
	2018		2017	
	Dividend per share sen	Total dividend RM'000	Dividend per share sen	Total dividend RM'000
Ordinary shares:				
Interim dividend	**7.50**	**300,753**	5.00	200,502
Final dividend	**13.00**	**521,306**	10.00	401,005
	20.50	**822,059**	15.00	601,507

At the forthcoming Annual General Meeting, a single-tier final dividend in respect of the current financial year of 13.00 sen per share amounting to RM521,306,000 will be proposed for shareholders' approval. The single-tier final dividend was approved by the Board of Directors on 24 January 2019.

The financial statements for the current financial year do not reflect this single-tier final dividend. This dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2019.

Dividends recognised as distribution to ordinary equity holders of the Bank:

	Group and Bank			
	2018		2017	
	Dividend per share sen	Total dividend RM'000	Dividend per share sen	Total dividend RM'000
Ordinary shares				
Interim dividend – 2018	**7.50**	**300,753**	–	–
Final dividend – 2017	**10.00**	**401,005**	–	–
Interim dividend – 2017	**–**	**–**	5.00	200,502
Final dividend – 2016	**–**	**–**	7.00	280,703
	17.50	**701,758**	12.00	481,205

Notes to the Financial Statements

for the financial year ended 31 December 2018

47 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to its customers. Apart from the allowance for commitments and contingencies already made in the financial statements, no material losses are anticipated as a result of these transactions.

The commitments and contingencies comprise the following:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Direct credit substitutes	**1,586,463**	1,713,757	**1,565,728**	1,691,694
Transaction-related contingent items	**5,189,623**	5,241,528	**4,861,283**	4,997,587
Short term self-liquidating trade-related contingencies	**1,096,962**	1,062,958	**1,055,709**	975,179
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions, and commitment to buy-back Islamic securities under Sell and Buy Back Agreement transactions	**3,300,032**	629,085	**3,300,032**	1,657,649
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	**20,361**	–	**20,361**	–
Irrevocable commitments to extend credit:				
– Maturity less than one year	**1,903,660**	2,215,137	**516,646**	548,057
– Maturity more than one year	**27,844,792**	28,020,104	**20,302,395**	20,464,906
Foreign exchange related contracts^:				
– Less than one year	**75,290,044**	72,013,970	**77,918,858**	73,557,981
– One year to less than five years	**3,024,523**	5,284,174	**3,865,873**	6,262,028
– More than five years	**1,238,167**	2,613,222	**1,238,167**	2,721,200
Equity related contracts^:				
– Less than one year	**–**	7,262	**–**	–
Interest rate related contracts^:				
– Less than one year	**10,520,565**	10,804,368	**11,785,566**	11,724,368
– One year to less than five years	**17,225,565**	15,171,523	**17,815,564**	15,596,523
– More than five years	**9,642,534**	11,825,636	**10,327,534**	11,825,636
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**15,058,136**	15,622,899	**12,744,941**	13,355,680
	172,941,427	172,225,623	**167,318,657**	165,378,488

^ These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statements and statements of financial position as derivative assets or derivative liabilities.

Notes to the Financial Statements
for the financial year ended 31 December 2018

47 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	Group	
	2018 RM'000	2017 RM'000
Corporate guarantee issued in favour of Monetary Authority of Singapore in relation to undertaking of subsidiaries	**151,647**	151,450
Corporate guarantee issued in favour of the Stock Exchange of Thailand in relation to a derivative warrant programme of a subsidiary	**359**	133
	152,006	151,583

The Group and the Bank have also given a guarantee to the Bank of Thailand to provide support to meet any legal liabilities which may be incurred in respect of its operations in Thailand.

48 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Rental of premises:				
– Within one year	**96,511**	99,945	**50,576**	53,268
– Between one to five years	**70,879**	81,232	**34,621**	38,590
– More than five years	**1,242**	304	**–**	–
	168,632	181,481	**85,197**	91,858

49 CAPITAL COMMITMENTS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Authorised and contracted for:				
– Property, plant and equipment	**163,698**	433,157	**139,123**	399,518
– Investment securities	**8,845**	40,905	**–**	–
	172,543	474,062	**139,123**	399,518

50 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of, and their relationship with the Bank, are as follows:

Related parties	Relationship
Employees Provident Fund ('EPF')	Substantial shareholder, a fund body that is significantly influenced by the government
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Subsidiaries of the Bank as disclosed in Note 16	Subsidiaries
Key management personnel	The key management personnel of the Group and the Bank consists of: – All Directors of the Bank and its key subsidiaries; and – Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned in Notes 12 and 26, set out below are other significant related party transactions and balances.

Other related parties of the Bank comprise of transactions or balances with the Bank's subsidiaries.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

Notes to the Financial Statements
for the financial year ended 31 December 2018

50 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

Group	2018 Key management personnel RM'000	2018 EPF and EPF Group of companies RM'000	2017 Key management personnel RM'000	2017 EPF and EPF Group of companies RM'000
Income				
Interest on loans, advances and financing	654	41,745	572	17,828
Interest on financial assets at FVTPL	–	9	–	–
Interest on financial assets at FVOCI/financial investments AFS	–	14,559	–	18,993
Interest on financial investments at amortised cost/financial investments HTM	–	24,662	–	26,352
Fee income	1,009	2,383	371	8,284
Insurance premium	135	19,245	153	19,339
Brokerage income	178	13,550	113	13,587
Other income	90	73	1	141
	2,066	116,226	1,210	104,524
Expenses				
Interest on deposits from customers	267	5,472	318	5,058
Rental of premises	508	–	920	–
Other expenses	19	1,294	65	1,334
	794	6,766	1,303	6,392
Amounts due from				
Loans, advances and financing	15,166	136,226	13,979	792,394
Clients' and brokers' balances	–	1,383	101	94,255
Financial assets at FVOCI/financial investments AFS	–	240,640	–	360,784
Financial investments at amortised cost/financial investments HTM	–	540,186	–	567,351
Other assets	3	2,428	107	7,374
	15,169	920,863	14,187	1,822,158
Amounts due to				
Deposits from customers	50,005	706,053	31,501	441,186
Clients' and brokers' balances	184	–	327	16,535
Other liabilities	37	946	18	1,891
	50,226	706,999	31,846	459,612

Notes to the Financial Statements

for the financial year ended 31 December 2018

50 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

	2018			2017		
Bank	**Key management personnel RM'000**	**EPF and EPF Group of companies RM'000**	**Subsidiaries RM'000**	**Key management personnel RM'000**	**EPF and EPF Group of companies RM'000**	**Subsidiaries RM'000**
Income						
Interest on deposits and placements with other financial institutions	**–**	**–**	**454,221**	–	–	415,824
Interest on loans, advances and financing	**485**	**–**	**2,315**	422	114	2,301
Interest on financial assets at FVOCI/ financial investments AFS	**–**	**13,072**	**–**	–	15,211	–
Interest on financial investments at amortised cost/financial investments HTM	**–**	**24,662**	**–**	–	26,352	4,097
Fee income	**27**	**–**	**–**	11	–	–
Other income	**–**	**–**	**1,935**	–	–	(30,436)
	512	**37,734**	**458,471**	433	41,677	391,786
Expenses						
Interest on deposits and placements of banks and other financial institutions	**–**	**–**	**68,311**	–	–	141,253
Interest on deposits from customers	**119**	**331**	**6,548**	182	2,167	9,072
Interest on obligation on securities sold under repurchase agreements	**–**	**–**	**–**	–	–	51
Interest on Hybrid Tier-1 Capital Securities	**–**	**–**	**338**	–	–	339
Rental of premises	**–**	**–**	**8,003**	–	–	7,814
Management fee	**–**	**–**	**9,004**	–	–	9,047
Reimbursement of operating expenses from a subsidiary	**–**	**–**	**(295,564)**	–	–	(239,036)
Other expenses	**–**	**–**	**102,769**	–	–	96,835
	119	**331**	**(100,591)**	182	2,167	25,375

Notes to the Financial Statements

for the financial year ended 31 December 2018

50 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

Bank	2018 Key management personnel RM'000	2018 EPF and EPF Group of companies RM'000	2018 Subsidiaries RM'000	2017 Key management personnel RM'000	2017 EPF and EPF Group of companies RM'000	2017 Subsidiaries RM'000
Amounts due from						
Money at call and deposit placements	–	–	1,596,817	–	–	1,889,469
Deposits and placements with banks and other financial institutions	–	–	10,767,318	–	–	11,232,377
Derivative assets	–	–	106,866	–	–	14,649
Loans, advances and financing	11,922	–	204,426	9,754	–	197,982
Financial assets at FVOCI/financial investments AFS	–	230,580	–	–	315,570	–
Financial investments at amortised cost/ financial investments HTM	–	540,186	–	–	567,351	–
Other assets	–	–	246,754	–	–	313,202
	11,922	770,766	12,922,181	9,754	882,921	13,647,679
Amounts due to						
Deposits and placements with banks and other financial institutions	–	–	2,754,419	–	–	6,021,155
Deposits from customers	26,983	334,432	684,031	15,243	307,234	535,800
Derivative liabilities	–	–	114,214	–	–	321,562
Other liabilities	–	–	21,684	–	–	26,943
Hybrid Tier-1 Capital Securities	–	–	5,014	–	–	5,012
Obligations on securities sold under repurchase agreements	–	–	926,125	–	–	1,587,979
	26,983	334,432	4,505,487	15,243	307,234	8,498,451

50 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of Directors and other members of key management are as follows:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Short term employee benefits:				
– Fees	**2,434**	2,758	**1,266**	1,405
– Salary and other remuneration (Note (i))	**41,491**	28,528	**26,031**	18,133
– Contribution to EPF (Note (i))	**4,478**	3,140	**3,476**	2,466
– Benefits-in-kind	**172**	315	**71**	96
	48,575	34,741	**30,844**	22,100

(i) Inclusive of Group's Cash Retention Scheme and the related employer's contribution totalling RM14,394,000 and RM7,688,000 for the Group and the Bank respectively. The payout under this retention scheme was based on the key management personnel's performance over the 4-year period from 2014 to 2017.

The above includes Directors' remuneration as disclosed in Note 40.

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Approved limit on loans, advances and financing for key management personnel	**31,228**	28,308	**20,047**	16,729

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Outstanding credit exposures with connected parties (RM'000)	**13,214,043**	11,154,524	**11,807,408**	10,933,966
Percentage of outstanding credit exposures with connected parties as proportion of total credit exposures (%)	**6.41**	5.76	**8.43**	7.90
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**0.09**	0.001	**0.0002**	0.001

The credit exposures above are derived based on BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

Notes to the Financial Statements

for the financial year ended 31 December 2018

50 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Intercompany charges

Breakdown of intercompany charges by type of services received and geographical distribution as per BNM's Guidelines on Financial Reporting issued on 2 February 2018 are as follows:

Bank	Interest on deposits and placements of banks and other financial institutions RM'000	Interest on deposits from customers RM'000	Interest on Hybrid Tier-1 Capital Securities RM'000	Rental of premises RM'000	Management fee RM'000	Reimbursement of operating expenses from a subsidiary RM'000	Other expenses RM'000
2018							
Malaysia	**68,311**	**6,317**	**338**	**694**	**8,878**	**(295,564)**	**102,616**
Singapore	**–**	**160**	**–**	**7,309**	**126**	**–**	**–**
Thailand	**–**	**71**	**–**	**–**	**–**	**–**	**153**
	68,311	**6,548**	**338**	**8,003**	**9,004**	**(295,564)**	**102,769**
2017							
Malaysia	141,253	8,538	339	693	8,877	(239,036)	97,045
Singapore	–	466	–	7,121	170	–	(189)
Thailand	–	68	–	–	–	–	30
	141,253	9,072	339	7,814	9,047	(239,036)	96,886

51 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined its Management Committee as its chief operating decision-maker.

Pursuant to the Group's internal management reporting framework, the operations of RHB Insurance Berhad ('RHB Insurance') is now grouped under 'Support Center and Others'. RHB Insurance was previously categorised under 'Group Retail Banking'. Accordingly, the Group has restated the related corresponding segment information.

The Group's business segments can be organised into the following main segments reflecting the Group's internal reporting structure:

(a) Group Retail Banking

Group Retail Banking focuses on providing products and services to individual customers. The products and services offered to customers include credit facilities (mortgages, non-residential mortgages, hire purchase, purchase of securities, credit cards and other personal loans and financing), remittances, deposits collection, investment related products, and bancassurance/bancatakaful products.

51 SEGMENT REPORTING (CONTINUED)

The Group's business segments can be organised into the following main segments reflecting the Group's internal reporting structure (continued):

(b) Group Business Banking

Group Business Banking caters for funding needs as well as deposit collection from small and medium sized enterprises and wholesale clients.

(c) Group Wholesale Banking

(i) Group Corporate Banking and Group Investment Banking

Group Corporate Banking caters to funding or lending needs of corporate customers including public listed corporations and its related entities, multinational corporations (including Japanese), financial institutions and Government and state owned enterprises. Included under Group Corporate Banking are offshore banking activities carried out by RHB Bank (L) Ltd whose borrowings and lending facilities are offered in major currencies mainly to corporate customers.

Group Investment Banking provides services for advisory, fund raising in the structuring and issuance of debt securities and capital market instruments, corporate and debt restructuring, mergers and acquisitions, private placements, underwriting and structuring of bilateral lending, project financing, loans syndication, infrastructure financing, initial public offerings of equity related instruments, private placements and underwriting. This segment also covers facilities for equity share trading in local and foreign markets, share margin financing, futures broking products and services, custodian and nominee services, investment cash management and unit trust funds.

This segment also offers stockbroking and investment banking products and services to the Group's regional customers in Singapore, Hong Kong, Indonesia, and Thailand.

(ii) Group Treasury and Global Markets

Group Treasury and Global Markets operations are involved in proprietary and non-proprietary trading in fixed income securities and foreign exchange, derivatives trading and structuring, managing customer-based foreign exchange and money market transactions, funding and investments in ringgit and foreign currencies for the Group, as well as funding center.

(d) Group International Business

Group International Business primarily focuses on providing commercial banking related products and services tailored to the specific needs of the customers in foreign countries in which the Group has operations. The Group currently has foreign presences in Singapore, Thailand, Brunei, Cambodia and Lao.

(e) Support Center and Others

Support Center and Others comprise results from other business segments in the Group (general insurance business, nominee services, property investment and rental of premises and other related financial services). The results of these other businesses are not material to the Group and therefore do not render a separate disclosure and are reported in aggregate in the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

51 SEGMENT REPORTING (CONTINUED)

The business segment results are prepared based on the Group's internal management reporting, which reflects the organisation's management reporting structure. Internal allocation of costs, for example, back office support, centralised cost, funding center and the application of transfer pricing, where appropriate, has been used in preparing the segmental reporting.

During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

(a) Business segment analysis

2018	Group Retail Banking RM'000	Group Business Banking RM'000	GWB Group CBIB RM'000	GWB Group Treasury and Global Markets RM'000	Group International Business RM'000	Support Center and Others RM'000	Inter-Segment Elimination RM'000	Total RM'000
External revenue	2,405,341	1,084,119	1,574,483	1,359,720	536,002	(154,052)	–	6,805,613
Inter-segment revenue	18,556	–	34,019	(10,289)	6,419	8,878	(57,583)	–
Segment revenue	2,423,897	1,084,119	1,608,502	1,349,431	542,421	(145,174)	(57,583)	6,805,613
Other operating expenses	(1,208,370)	(597,736)	(897,287)	(152,262)	(416,318)	(143,265)	57,583	(3,357,655)
Including:								
Depreciation of property, plant and equipment	(57,804)	(17,534)	(22,262)	(2,615)	(16,610)	(2,896)	–	(119,721)
Amortisation of intangible assets	(41,098)	(23,631)	(18,186)	(4,563)	(10,135)	(3,101)	–	(100,714)
Allowance for credit losses on financial assets	(212,848)	(88,678)	(94,463)	(8,364)	88,691	9,660	–	(306,002)
Impairment losses made on other non-financial assets	–	–	(22,912)	(88)	–	–	–	(23,000)
Segment profit/(loss)	1,002,679	397,705	593,840	1,188,717	214,794	(278,779)	–	3,118,956
Share of results of joint ventures								99
Profit before taxation								3,119,055
Taxation								(810,143)
Net profit for the financial year								2,308,912

51 SEGMENT REPORTING (CONTINUED)

(a) Business segment analysis (continued)

2018	Group Retail Banking RM'000	Group Business Banking RM'000	GWB: Group CBIB RM'000	GWB: Group Treasury and Global Markets RM'000	Group International Business RM'000	Support Center and Others RM'000	Total RM'000
Segment assets	85,399,122	25,354,862	52,926,258	50,642,438	25,049,775	2,409,184	241,781,639
Investments in associates and joint ventures							25,352
Tax recoverable							389,172
Deferred tax assets							79,191
Unallocated assets							890,325
Total assets							243,165,679
Segment liabilities	52,510,894	25,901,243	54,095,596	56,427,360	20,089,033	1,313,292	210,337,418
Tax liabilities							24,578
Deferred tax liabilities							2,308
Borrowings							1,182,885
Senior debt securities							3,323,664
Hybrid Tier-1 Capital Securities							603,221
Subordinated obligations							3,748,655
Unallocated liabilities							547,002
Total liabilities							219,769,731
Other segment items:							
Capital expenditure	134,423	89,754	41,325	12,154	34,301	8,823	320,780

Notes to the Financial Statements
for the financial year ended 31 December 2018

51 SEGMENT REPORTING (CONTINUED)

(a) Business segment analysis (continued)

2017	Group Retail Banking RM'000	Group Business Banking RM'000	GWB: Group CBIB RM'000	GWB: Group Treasury and Global Markets RM'000	Group International Business RM'000	Support Center and Others RM'000	Inter-Segment Elimination RM'000	Total RM'000
External revenue	2,182,928	1,016,584	1,488,823	1,327,854	537,879	(169,693)	–	6,384,375
Inter-segment revenue	20,610	–	65,851	(52,102)	6,317	11,499	(52,175)	–
Segment revenue	2,203,538	1,016,584	1,554,674	1,275,752	544,196	(158,194)	(52,175)	6,384,375
Other operating expenses	(1,165,677)	(533,376)	(904,949)	(125,301)	(382,884)	(124,169)	52,175	(3,184,181)
Including:								
Depreciation of property, plant and equipment	(60,240)	(12,864)	(26,115)	(1,964)	(15,379)	(2,780)	–	(119,342)
Amortisation of intangible assets	(33,930)	(15,921)	(17,128)	(3,933)	(7,844)	(2,253)	–	(81,009)
Allowance for credit losses on financial assets	(77,876)	(90,718)	(79,410)	14,819	(410,751)	1,147	–	(642,789)
Impairment losses written back on other non-financial assets	–	–	–	–	–	336	–	336
Segment profit/(loss)	959,985	392,490	570,315	1,165,270	(249,439)	(280,880)	–	2,557,741
Share of results of joint ventures								391
Profit before taxation								2,558,132
Taxation								(602,092)
Net profit for the financial year								1,956,040

51 SEGMENT REPORTING (CONTINUED)

(a) Business segment analysis (continued)

2017	Group Retail Banking RM'000	Group Business Banking RM'000	GWB Group CBIB RM'000	GWB Group Treasury and Global Markets RM'000	Group International Business RM'000	Support Center and Others RM'000	Total RM'000
Segment assets	77,185,915	24,134,440	59,842,186	40,599,762	25,643,884	2,183,279	229,589,466
Investments in associates and joint ventures							48,253
Tax recoverable							115,874
Deferred tax assets							36,072
Unallocated assets							420,261
Total assets							230,209,926
Segment liabilities	47,566,692	22,809,848	62,109,781	43,540,492	20,869,184	1,224,431	198,120,428
Tax liabilities							33,531
Deferred tax liabilities							19,698
Borrowings							1,153,719
Senior debt securities							3,252,581
Hybrid Tier-1 Capital Securities							602,666
Subordinated obligations							3,748,294
Unallocated liabilities							94,581
Total liabilities							207,025,498
Other segment items:							
Capital expenditure	125,810	56,203	39,275	9,287	34,407	16,611	281,593

(b) Geographical segment analysis:

	Revenue RM'000	Segment assets RM'000	Capital expenditure RM'000
2018			
Malaysia	**6,056,037**	**216,328,036**	**277,987**
Outside Malaysia	**749,576**	**26,837,643**	**42,793**
	6,805,613	**243,165,679**	**320,780**
2017			
Malaysia	5,521,498	202,616,781	240,460
Outside Malaysia	862,877	27,593,145	41,133
	6,384,375	230,209,926	281,593

Notes to the Financial Statements

for the financial year ended 31 December 2018

52 CAPITAL ADEQUACY RATIO

BNM Guidelines on capital adequacy requires the Group, the Bank and the banking subsidiaries to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

With effect from 30 September 2018, RHB Islamic Bank migrates from Standardised Approach ('SA') to Internal Rating Based ('IRB') Approach for Credit Risk for its regulatory capital reporting. The comparative information on RHB Islamic Bank is not restated.

RHB Indochina Bank, a wholly owned subsidiary of the Bank is subject to National Bank of Cambodia's capital adequacy requirements.

(a) The capital adequacy ratios of the Group and the Bank are as follows:

	Group		Bank@	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Common Equity Tier I ('CET I')/Tier I Capital				
Share capital	**6,994,103**	6,994,103	**6,994,103**	6,994,103
Retained profits	**14,791,837**	13,249,895	**12,116,174**	11,019,987
Other reserves	**722,541**	667,019	**499,913**	450,926
FVOCI/AFS reserves	**319,844**	275,224	**299,322**	272,449
	22,828,325	21,186,241	**19,909,512**	18,737,465
Less:				
Goodwill	**(2,633,383)**	(2,633,383)	**(1,651,542)**	(1,651,542)
Intangible assets (include associated deferred tax liabilities)	**(563,693)**	(447,837)	**(504,752)**	(390,769)
Deferred tax assets	**(100,192)**	(44,629)	**(55,305)**	(10,542)
55% of cumulative gains arising from change in value of FVOCI/ AFS instruments	**(175,914)**	(151,373)	**(164,627)**	(149,847)
Investments in subsidiaries*	**(127,779)**	(120,542)	**(4,711,343)**	(3,436,416)
Other deductions#	**(39,524)**	(35,272)	**(34,675)**	(30,965)
Total CET I Capital	**19,187,840**	17,753,205	**12,787,268**	13,067,384
Hybrid Tier-1 Capital Securities**	**240,000**	300,000	**240,000**	300,000
Qualifying non-controlling interests recognised as Tier I Capital	**10,606**	20,207	**–**	–
Total Tier I Capital	**19,438,446**	18,073,412	**13,027,268**	13,367,384
Tier II Capital				
Subordinated obligations subject to gradual phase out treatment***	**300,000**	300,000	**300,000**	300,000
Subordinated obligations meeting all relevant criteria	**2,249,272**	2,249,028	**2,249,272**	2,249,028
Qualifying capital instruments of a subsidiary issued to third parties+	**501,504**	385,523	**–**	–
Surplus eligible provisions over expected losses	**473,875**	457,989	**379,954**	376,282
Collective impairment allowance^ and regulatory reserves~	**–**	399,560	**–**	284,839
General provisionsˇ and regulatory reserves~	**192,590**	–	**144,014**	–
	3,717,241	3,792,100	**3,073,240**	3,210,149
Less:				
Investments in subsidiaries*	**–**	(30,135)	**–**	(859,104)
Total Tier II Capital	**3,717,241**	3,761,965	**3,073,240**	2,351,045
Total Capital	**23,155,687**	21,835,377	**16,100,508**	15,718,429

52 CAPITAL ADEQUACY RATIO (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank are as follows (continued):

	Group		Bank@	
	2018	**2017**	**2018**	**2017**
Capital ratios				
Before proposed dividends:				
CET I Capital Ratio	**15.920%**	14.228%	**13.818%**	13.523%
Tier I Capital Ratio	**16.128%**	14.485%	**14.077%**	13.833%
Total Capital Ratio	**19.213%**	17.500%	**17.398%**	16.266%
After proposed dividends:				
CET I Capital Ratio	**15.488%**	13.907%	**13.254%**	13.108%
Tier I Capital Ratio	**15.696%**	14.164%	**13.514%**	13.418%
Total Capital Ratio	**18.780%**	17.179%	**16.835%**	15.851%

@ The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank and its wholly-owned offshore banking subsidiary, RHB Bank (L) Ltd.

* Investments in subsidiaries are subject to gradual deduction using the corresponding deduction approach under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

Pursuant to Basel II Market Risk para 5.19 & 5.20 – Valuation Adjustments, the Capital Adequacy Framework (Basel II – RWA) calculation shall account for the ageing, liquidity and holding back adjustments on its trading portfolio.

** Hybrid Tier-1 Capital Securities that are recognised as Tier I capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

*** Subordinated obligations that are recognised as Tier II capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

+ Qualifying subordinated sukuk that are recognised as Tier-II capital instruments held by third parties as prescribed under paragraph 17.6 of the BNM's Guideline on Capital Adequacy Framework (Capital Components) which are issued by a fully consolidated subsidiary of the Bank.

^ Excludes collective impairment allowance attributable to loans, advances, and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

ˇ Pursuant to BNM's policy document on Financial Reporting, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'.

~ Includes the qualifying regulatory reserves ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk of the Group and the Bank of RM61,723,000 (2017: RM268,407,000) and RM27,796,000 (2017: RM202,172,000) respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2018

52 CAPITAL ADEQUACY RATIO (CONTINUED)

(b) The capital adequacy ratios of RHB Islamic Bank and RHB Investment Bank are as follows:

	RHB Islamic Bank		RHB Investment Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CET I/Tier I Capital				
Share capital	**1,673,424**	1,273,424	**1,487,773**	1,487,773
Retained profits	**2,013,893**	1,787,323	**558,690**	883,218
FVOCI/AFS reserves	**(3,499)**	(15,929)	**20,853**	26,120
	3,683,818	3,044,818	**2,067,316**	2,397,111
Less:				
Goodwill	**–**	–	**(372,395)**	(372,395)
Investments in subsidiaries, associates and joint ventures*	**–**	–	**(1,203,286)**	(1,199,358)
Intangible assets (include associated deferred tax liabilities)	**(4,271)**	(4,412)	**(27,055)**	(27,700)
Deferred tax assets	**(23,499)**	(17,140)	**(5,832)**	(1,180)
55% of cumulative gains arising from change in value of FVOCI/AFS instruments	**–**	–	**(11,469)**	(14,366)
Other deductions#	**(4,849)**	(4,296)	**–**	(12)
Total CET I Capital/Total Tier I Capital	**3,651,199**	3,018,970	**447,279**	782,100
Tier II Capital				
Subordinated sukuk	**750,000**	750,000	**–**	–
Subordinated obligations meeting all relevant criteria	**–**	–	**400,000**	400,000
Surplus eligible provisions over expected losses	**94,333**	–	**–**	–
Collective impairment allowance^ and regulatory reserves~	**–**	343,212	**–**	8,987
General provisionsˇ and regulatory reserves~	**54,330**	–	**7,657**	–
	898,663	1,093,212	**407,657**	408,987
Less:				
Investments in subsidiaries, associates and joint ventures*	**–**	–	**–**	(299,839)
Total Tier II Capital	**898,663**	1,093,212	**407,657**	109,148
Total Capital	**4,549,862**	4,112,182	**854,936**	891,248

52 CAPITAL ADEQUACY RATIO (CONTINUED)

(b) The capital adequacy ratios of RHB Islamic Bank and RHB Investment Bank are as follows (continued):

	RHB Islamic Bank		RHB Investment Bank	
	2018	**2017**	**2018**	**2017**
Capital ratios				
Before proposed dividends:				
CET I Capital Ratio	**13.222%**	10.376%	**21.323%**	34.995%
Tier I Capital Ratio	**13.222%**	10.376%	**21.323%**	34.995%
Total Capital Ratio	**16.476%**	14.134%	**40.757%**	39.878%
After proposed dividends:				
CET I Capital Ratio	**13.222%**	10.376%	**21.323%**	34.995%
Tier I Capital Ratio	**13.222%**	10.376%	**21.323%**	34.995%
Total Capital Ratio	**16.476%**	14.134%	**40.757%**	39.878%

* Investments in subsidiaries are subject to the gradual deduction in the calculation under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Capital Adequacy Framework (Capital Components).

\# Pursuant to Basel II Market Risk para 5.19 & 5.20 – Valuation Adjustments, the Capital Adequacy Framework (Basel II – RWA) calculation shall account for the ageing, liquidity and holding back adjustments on its trading portfolio.

^ Excludes collective impairment allowance attributable to loans, advances, and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

ˇ Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'.

~ Includes the qualifying regulatory reserves ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk of RHB Islamic Bank and RHB Investment Bank of RM42,756,000 (2017: RM204,312,000) and RM7,501,000 (2017: RM8,987,000) respectively.

(c) The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

2018	**Group RM'000**	**Bank@ RM'000**	**RHB Islamic Bank RM'000**	**RHB Investment Bank RM'000**
Credit risk	**104,908,738**	**81,202,389**	**20,068,530**	**612,585**
Market risk	**3,852,444**	**2,945,831**	**268,130**	**678,014**
Operational risk	**11,762,542**	**8,394,333**	**1,679,551**	**807,022**
Additional risk-weighted assets due to capital floor	**–**	**–**	**5,599,323**	**–**
Total risk-weighted assets	**120,523,724**	**92,542,553**	**27,615,534**	**2,097,621**

Notes to the Financial Statements

for the financial year ended 31 December 2018

52 CAPITAL ADEQUACY RATIO (CONTINUED)

(c) The breakdown of risk-weighted assets in the various categories of risk-weights are as follows (continued):

2017	Group RM'000	Bank@ RM'000	RHB Islamic Bank RM'000	RHB Investment Bank RM'000
Credit risk	108,296,294	85,500,785	27,456,953	718,961
Market risk	4,960,017	2,872,562	240,688	610,542
Operational risk	11,516,719	8,260,751	1,397,487	905,417
Total risk-weighted assets	124,773,030	96,634,098	29,095,128	2,234,920

@ The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank and its wholly-owned offshore banking subsidiary, RHB Bank (L) Ltd.

The total risk-weighted assets of the Group and the Bank are computed based on BNM's Guideline on Risk Weighted Capital Adequacy Framework: IRB Approach for Credit Risk, Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

With effect from 30 September 2018, the total risk-weighted assets of RHB Islamic Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Internal Ratings Based Approach for Credit and Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II). Prior to this, the total risk-weighted assets of RHB Islamic Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

The total risk-weighted assets of RHB Investment Bank are computed based on BNM's Guideline on Risk Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

(d) The capital adequacy ratios of RHB Indochina Bank are as follows:

	2018	2017
Before proposed dividends:		
Solvency ratio	**19.438%**	18.686%
After proposed dividends:		
Solvency ratio	**19.438%**	18.686%

The Solvency Ratio of RHB Indochina Bank is the nearest equivalent regulatory compliance ratio in Cambodia computed in accordance with Prakas B7-00-46, B7-04-206 and B7-07-135 issued by the National Bank of Cambodia. This ratio is derived as RHB Indochina Bank's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory solvency ratio requirement in Cambodia is 15%.

53 FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives and Policies

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Group is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

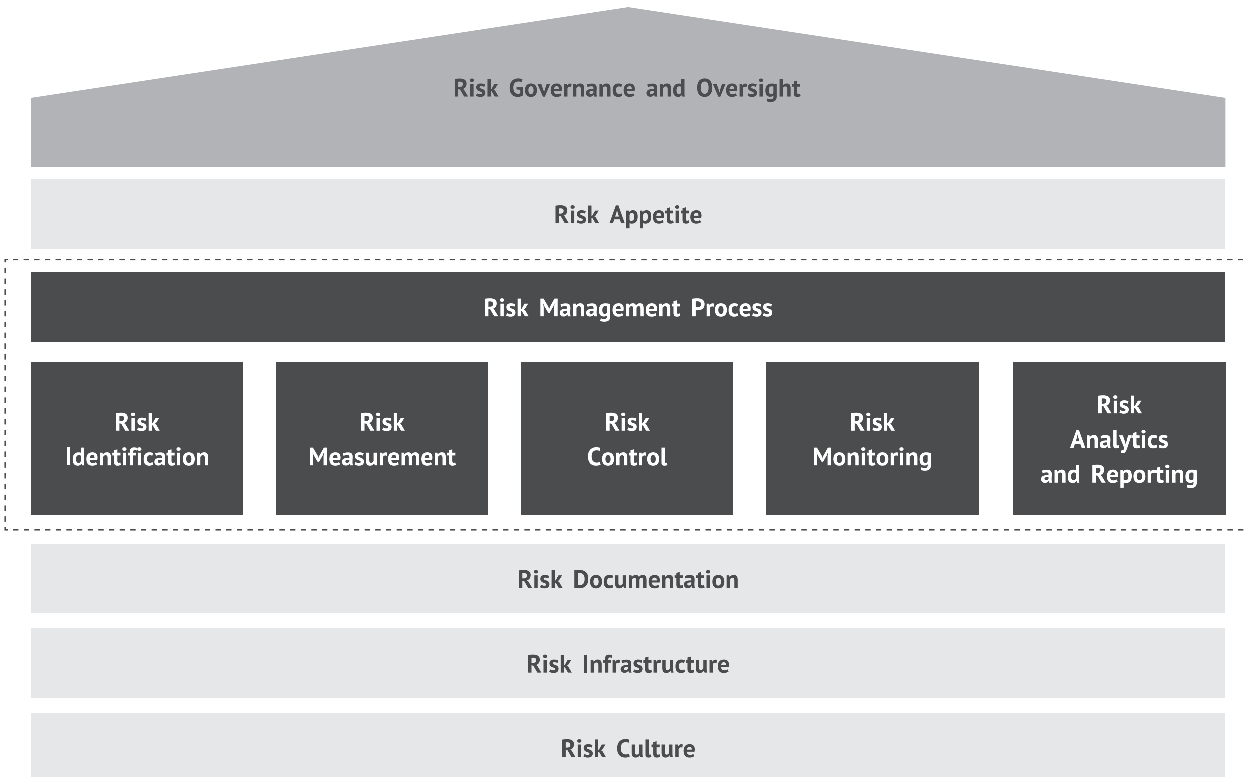
Effective risk management is fundamental to being able to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Group's operating environment.

The Group Risk Management Framework governs the management of risks in the Group, as follows:

1. It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

2. It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

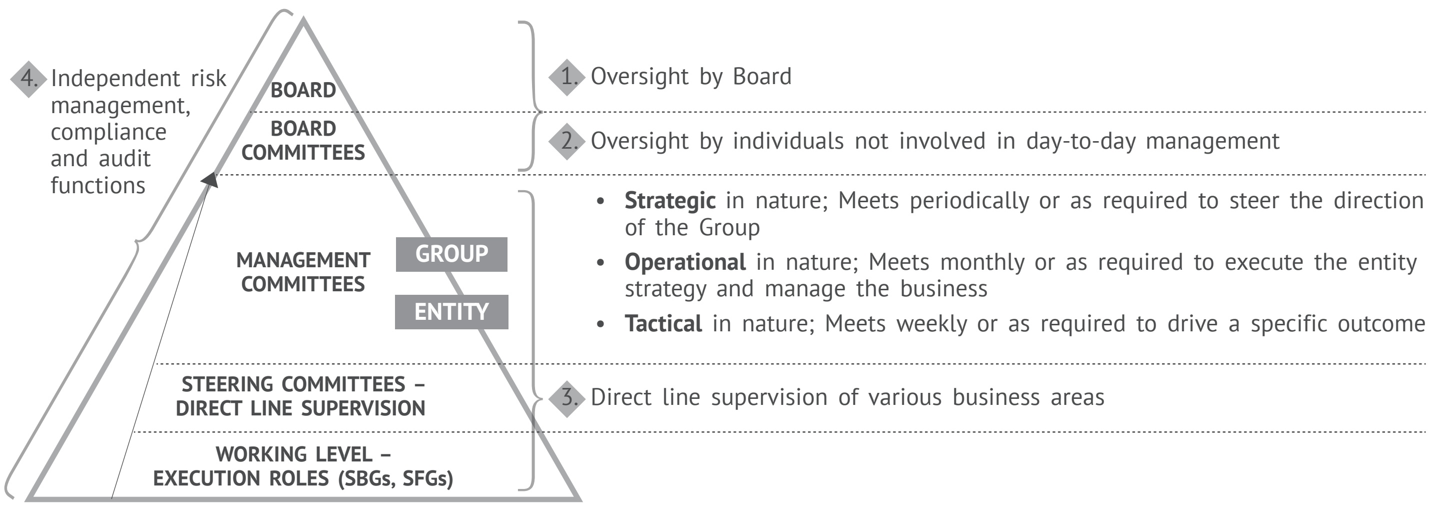
1. Risk governance from the Boards of Directors of various operating entities within the Group

   The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

   Risk Governance and Organisation

   The Board Risk Committee ('BRC') is the principal Board committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, framework, policies and models. The Islamic Risk Management Committee ('IRMC') is responsible for assisting the Board of Directors of RHB Islamic Bank on issues relevant and unique to Islamic finance.

   The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising senior management of the Group and which reports to the BRC/IRMC and the Group Management Committee ('GMC'). The Group Asset and Liability Committee ('Group ALCO') assists the GCRC to oversee market risk, liquidity risk and balance sheet management whilst the Investment Bank Risk Management Committee ('IBRMC') is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business. An overview of this governance framework at Group level is as below:



53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Culture

2. Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The Strategic Business Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE **Business/Functional Level**	• Responsible for managing day-to-day operational risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE **Group Risk Management & Group Compliance**	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE **Group Internal Audit**	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Environment and Infrastructure

3. Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.

Group Risk and Credit Management is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Environment and Infrastructure (continued)

3. Institutionalisation of a risk-focused organisation (continued)

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure they operate within established corporate policies and limits.

The risk management process within the Group seeks to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested in technology, including data management to support the Group's risk management activities.

Risk Appetite

4. Alignment of risk management to business strategies

The Group Risk Management Framework serves to align the Group's business strategy with its risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Appetite (continued)

5. Optimisation of risk-adjusted return

   One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

   The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, and securities and futures related business, the Group is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) Market risk – the risk of losses arising from adverse movements in market indicators, such as interest/profit rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking book.

(ii) Liquidity risk – the risk of the Group and the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk – the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's and the Bank's lending/financing, trade finance and its funding, investment and trading activities from both on- and off-balance sheet transactions.

(iv) Operational risk – the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

To mitigate the various business risks of the Group and the Bank, the following has been put in place:

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

Major Areas of Risk (continued)

Market Risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Group's and the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee ('Group ALCO') and the GCRC performs a critical role in the oversight of the management of market risk and supports the IRMC and BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support senior management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.
- The Group and the Bank apply risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.
- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.
- Periodic stress testing are applied to ascertain market risk under abnormal market conditions.

Liquidity Risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Group and the Bank, and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The Group and the Bank have established a Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

Major Areas of Risk (continued)

Credit Risk

- The Group and the Bank abide to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.
- Industry best practices are incorporated into this policy.
- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.
- Group Investment Underwriting Committee ('GIUC') deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.
- GCC and GIUC submit to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.
- The Group and the Bank also ensure that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.
- Internal credit rating models are an integral part of the Group's and the Bank's credit risk management, decision-making process, and regulatory capital calculations.
- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.
- Counterparty, industry and product exposure limits/directions are set and risk reward relationships are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.
- The Bank has obtained BNM's approval to apply the Internal Ratings-Based ('IRB') approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit rating models for business loans/financing, and (iii) designing and implementing modelling of expected and unexpected losses.
- Plans are underway to migrate other material portfolios to the IRB approach for credit risk.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

Major Areas of Risk (continued)

Operational Risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management and Scenario Analysis.
- The Group's and the Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Group's and the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.
- The Group and the Bank have Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.
- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.
- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial Instruments by Category

Group 2018	At amortised cost RM'000	At fair value through the profit and loss RM'000	At fair value through other comprehensive income RM'000	Total RM'000
ASSETS				
Cash and short term funds	12,553,188	–	–	12,553,188
Deposits and placements with banks and other financial institutions	898,120	–	–	898,120
Financial assets at FVTPL	–	3,800,649	–	3,800,649
Financial assets at FVOCI	–	–	32,577,833	32,577,833
– Debt instruments	–	–	31,900,621	31,900,621
– Equity instruments	–	–	677,212	677,212
Financial investments at amortised cost	14,090,275	–	–	14,090,275
Loans, advances and financing	165,629,774	–	–	165,629,774
Clients' and brokers' balances	943,056	–	–	943,056
Other financial assets	956,588	–	–	956,588
Derivative assets	–	1,131,057	–	1,131,057
	195,071,001	4,931,706	32,577,833	232,580,540
LIABILITIES				
Deposits from customers	178,856,330	–	–	178,856,330
Deposits and placements of banks and other financial institutions	18,290,894	–	–	18,290,894
Obligations on securities sold under repurchase agreements	2,194,324	–	–	2,194,324
Bills and acceptances payables	301,603	–	–	301,603
Clients' and brokers' balances	841,782	–	–	841,782
Other financial liabilities	2,583,306	–	–	2,583,306
Derivative liabilities	–	1,116,701	–	1,116,701
Recourse obligation on loans sold to Cagamas	5,266,116	–	–	5,266,116
Borrowings	1,182,885	–	–	1,182,885
Senior debt securities	3,323,664	–	–	3,323,664
Hybrid Tier-1 Capital Securities	603,221	–	–	603,221
Subordinated obligations	3,748,655	–	–	3,748,655
	217,192,780	1,116,701	–	218,309,481

Notes to the Financial Statements
for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial Instruments by Category (continued)

Group 2017	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
ASSETS					
Cash and short term funds	9,951,878	–	–	–	9,951,878
Deposits and placements with banks and other financial institutions	1,161,601	–	–	–	1,161,601
Financial assets at FVTPL	–	2,564,269	–	–	2,564,269
Financial investments AFS	–	–	25,816,616	–	25,816,616
Financial investments HTM	–	–	–	19,045,943	19,045,943
Loans, advances and financing	158,301,463	–	–	–	158,301,463
Clients' and brokers' balances	1,599,594	–	–	–	1,599,594
Other assets	755,025	–	–	–	755,025
Derivative assets	–	1,826,667	–	–	1,826,667
	171,769,561	4,390,936	25,816,616	19,045,943	221,023,056

	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
LIABILITIES			
Deposits from customers	–	166,865,031	166,865,031
Deposits and placements of banks and other financial institutions	–	21,079,737	21,079,737
Obligations on securities sold under repurchase agreements	–	604,163	604,163
Bills and acceptances payables	–	302,152	302,152
Clients' and brokers' balances	–	1,369,395	1,369,395
Other financial liabilities	–	2,253,247	2,253,247
Derivative liabilities	2,551,504	–	2,551,504
Recourse obligation on loans sold to Cagamas	–	1,729,606	1,729,606
Borrowings	–	1,153,719	1,153,719
Senior debt securities	–	3,252,581	3,252,581
Hybrid Tier-1 Capital Securities	–	602,666	602,666
Subordinated obligations	–	3,748,294	3,748,294
	2,551,504	202,960,591	205,512,095

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial Instruments by Category (continued)

Bank 2018	At amortised cost RM'000	At fair value through the profit and loss RM'000	At fair value through other comprehensive income RM'000	Total RM'000
ASSETS				
Cash and short term funds	8,855,326	–	–	8,855,326
Deposits and placements with banks and other financial institutions	10,990,797	–	–	10,990,797
Financial assets at FVTPL	–	1,891,771	–	1,891,771
Financial assets at FVOCI	–	–	27,584,376	27,584,376
– Debt instruments	–	–	26,946,919	26,946,919
– Equity instruments	–	–	637,457	637,457
Financial investments at amortised cost	10,228,651	–	–	10,228,651
Loans, advances and financing	108,216,146	–	–	108,216,146
Other financial assets	602,692	–	–	602,692
Derivative assets	–	1,147,494	–	1,147,494
	138,893,612	3,039,265	27,584,376	169,517,253
LIABILITIES				
Deposits from customers	127,145,222	–	–	127,145,222
Deposits and placements of banks and other financial institutions	17,526,185	–	–	17,526,185
Obligations on securities sold under repurchase agreements	3,120,449	–	–	3,120,449
Bills and acceptances payables	247,552	–	–	247,552
Other financial liabilities	1,932,128	–	–	1,932,128
Derivative liabilities	–	1,120,287	–	1,120,287
Recourse obligation on loans sold to Cagamas	2,995,877	–	–	2,995,877
Borrowings	981,849	–	–	981,849
Subordinated obligations	3,323,664	–	–	3,323,664
Hybrid Tier-1 Capital Securities	608,235	–	–	608,235
Senior debt securities	2,589,066	–	–	2,589,066
	160,470,227	1,120,287	–	161,590,514

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial Instruments by Category (continued)

Bank 2017	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
ASSETS					
Cash and short term funds	7,614,663	–	–	–	7,614,663
Deposits and placements with banks and other financial institutions	11,275,105	–	–	–	11,275,105
Financial assets at FVTPL	–	828,006	–	–	828,006
Financial investments AFS	–	–	21,427,655	–	21,427,655
Financial investments HTM	–	–	–	14,496,205	14,496,205
Loans, advances and financing	109,530,317	–	–	–	109,530,317
Other financial assets	584,214	–	–	–	584,214
Derivative assets	–	1,834,676	–	–	1,834,676
	129,004,299	2,662,682	21,427,655	14,496,205	167,590,841

	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
LIABILITIES			
Deposits from customers	–	121,237,748	121,237,748
Deposits and placements of banks and other financial institutions	–	22,031,408	22,031,408
Obligations on securities sold under repurchase agreements	–	1,587,979	1,587,979
Bills and acceptances payables	–	286,751	286,751
Other financial liabilities	–	1,333,666	1,333,666
Derivative liabilities	2,513,980	–	2,513,980
Recourse obligation on loans sold to Cagamas	–	1,729,606	1,729,606
Borrowings	–	978,068	978,068
Senior debt securities	–	3,252,581	3,252,581
Hybrid Tier-1 Capital Securities	–	607,678	607,678
Subordinated obligations	–	2,588,638	2,588,638
	2,513,980	155,634,123	158,148,103

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest/profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Bank.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Group and the Bank seek to ensure that the interest/profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest/Profit rate sensitivity analysis

The interest/profit rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing floating interest/profit rates and fixed rate financial assets and financial liabilities:

	Group		Bank	
	Impact on profit after tax RM'000	Impact on reserves RM'000	Impact on profit after tax RM'000	Impact on reserves RM'000
2018				
+100 bps	**120,789**	**(1,101,111)**	**79,444**	**(930,795)**
-100 bps	**(109,937)**	**1,192,661**	**(70,218)**	**1,007,497**
2017				
+100 bps	146,031	(773,749)	108,529	(639,044)
-100 bps	(140,586)	830,583	(104,227)	686,565

The results above represent financial assets and liabilities that have been prepared on the following basis:

(a) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term interest/profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term interest/profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2017: 100 bps) interest/profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these interest/profit bearing assets and liabilities.

(b) Impact on reserves represent the changes in fair values of fixed income instruments held in the FVOCI/AFS portfolio arising from the shift in the interest/profit rate.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates (mainly consists of USD and SGD) on the consolidated currency position, while other variables remain constant.

	Group Impact on profit after tax RM'000	Bank Impact on profit after tax RM'000
2018		
+10%	**53,963**	**28,829**
-10%	**(53,963)**	**(28,829)**
2017		
+10%	26,699	9,642
-10%	(26,699)	(9,642)

Impact on the profit after tax is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk

The table below summarises the Group and the Bank's exposure to interest/profit rate risk. The carrying amount of assets and liabilities (include non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	Non-trading book								
Group 2018	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short term funds	9,916,148	–	–	–	–	–	2,637,040	–	12,553,188
Deposits and placements with banks and other financial institutions	–	488,697	115,376	286,534	–	–	7,513	–	898,120
Financial assets at FVTPL	–	–	–	–	–	–	–	3,800,649	3,800,649
Financial assets at FVOCI	1,055,897	762,010	775,427	1,070,840	4,719,355	23,224,603	969,701	–	32,577,833
Financial investments at amortised cost	472,781	407,057	538,140	1,349,167	4,366,125	6,927,339	29,666	–	14,090,275
Loans, advances and financing	125,853,456	10,241,490	3,108,080	1,896,768	3,881,149	20,536,837	111,994	–	165,629,774
Clients' and brokers' balances	24,041	–	–	–	–	–	919,015	–	943,056
Reinsurance assets	–	–	–	–	–	–	511,236	–	511,236
Other assets	–	–	–	–	–	3,329	1,486,510	–	1,489,839
Derivative assets	–	–	–	–	–	–	–	1,131,057	1,131,057
Statutory deposits	–	–	–	–	–	–	4,795,230	–	4,795,230
Tax recoverable	–	–	–	–	–	–	389,172	–	389,172
Deferred tax assets	–	–	–	–	–	–	79,191	–	79,191
Investments in associates and joint ventures	–	–	–	–	–	–	25,352	–	25,352
Property, plant and equipment	–	–	–	–	–	–	999,962	–	999,962
Goodwill	–	–	–	–	–	–	2,649,307	–	2,649,307
Intangible assets	–	–	–	–	–	–	602,438	–	602,438
TOTAL ASSETS	137,322,323	11,899,254	4,537,023	4,603,309	12,966,629	50,692,108	16,213,327	4,931,706	243,165,679

Notes to the Financial Statements
for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest/profit rate risk. The carrying amount of assets and liabilities (include non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
Group 2018	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	53,250,313	31,065,053	28,242,051	33,753,531	1,296,097	898,794	30,350,491	–	178,856,330
Deposits and placements of banks and other financial institutions	8,143,457	6,652,932	2,853,268	230,144	193,304	110,763	107,026	–	18,290,894
Obligations on securities sold under repurchase agreements	831,313	957,616	194,085	–	–	205,992	5,318	–	2,194,324
Bills and acceptances payable	20,803	31,790	–	–	–	–	249,010	–	301,603
Clients' and brokers' balances	–	–	–	–	–	–	841,782	–	841,782
General insurance contract liabilities	–	–	–	–	–	–	1,094,114	–	1,094,114
Other liabilities	87,499	1,343	12,786	23,741	78,579	1,300	2,717,308	–	2,922,556
Derivative liabilities	–	–	–	621	–	3,146	–	1,112,934	1,116,701
Recourse obligation on loans sold to Cagamas	–	–	–	1,725,000	3,500,000	–	41,116	–	5,266,116
Tax liabilities	–	–	–	–	–	–	24,578	–	24,578
Deferred tax liabilities	–	–	–	–	–	–	2,308	–	2,308
Borrowings	143,314	142,916	25,827	20,662	847,129	–	3,037	–	1,182,885
Senior debt securities	–	–	–	1,238,957	2,063,245	–	21,462	–	3,323,664
Hybrid Tier-1 Capital Securities	–	369,893	–	225,000	–	–	8,328	–	603,221
Subordinated obligations	–	–	500,000	1,000,000	999,849	1,199,424	49,382	–	3,748,655
TOTAL LIABILITIES	62,476,699	39,221,543	31,828,017	38,217,656	8,978,203	2,419,419	35,515,260	1,112,934	219,769,731
Shareholders' funds	–	–	–	–	–	–	23,357,987	–	23,357,987
NCI	–	–	–	–	–	–	37,961	–	37,961
TOTAL LIABILITIES AND EQUITY	62,476,699	39,221,543	31,828,017	38,217,656	8,978,203	2,419,419	58,911,208	1,112,934	243,165,679
On-balance sheet interest sensitivity gap	74,845,624	(27,322,289)	(27,290,994)	(33,614,347)	3,988,426	48,272,689			
Off-balance sheet interest sensitivity gap	1,420,543	581,343	1,040,905	1,876,266	5,170,736	762,545			
TOTAL INTEREST SENSITIVITY GAP	76,266,167	(26,740,946)	(26,250,089)	(31,738,081)	9,159,162	49,035,234			

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest/profit rate risk. The carrying amount of assets and liabilities (include non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
Group 2017	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS									
Cash and short term funds	7,217,684	–	–	–	–	–	2,734,194	–	9,951,878
Deposits and placements with banks and other financial institutions	–	965,572	125,599	60,973	621	–	8,836	–	1,161,601
Financial assets at FVTPL	–	–	–	–	–	–	–	2,564,269	2,564,269
Financial investments AFS	693,111	1,297,511	883,870	1,408,580	6,263,677	14,109,740	1,160,127#	–	25,816,616
Financial investments HTM	157,456	3,729,889	694,659	1,409,914	4,860,912	8,054,550	138,563#	–	19,045,943
Loans, advances and financing									
– performing	119,715,379	10,503,834	3,201,454	541,191	6,482,348	15,355,413	760,034	–	156,559,653
– impaired	–	–	–	–	–	–	1,741,810*	–	1,741,810
Clients' and brokers' balances	220,222	–	–	–	–	–	1,379,372	–	1,599,594
Reinsurance assets	–	–	–	–	–	–	482,760	–	482,760
Other assets	–	100	100	–	–	3,412	1,102,436	–	1,106,048
Derivative assets	–	–	–	–	–	–	–	1,826,667	1,826,667
Statutory deposits	–	–	–	–	–	–	4,001,002	–	4,001,002
Tax recoverable	–	–	–	–	–	–	115,874	–	115,874
Deferred tax assets	–	–	–	–	–	–	36,072	–	36,072
Investments in associates and joint ventures	–	–	–	–	–	–	48,253	–	48,253
Property, plant and equipment	–	–	–	–	–	–	1,013,710	–	1,013,710
Goodwill	–	–	–	–	–	–	2,649,307	–	2,649,307
Intangible assets	–	–	–	–	–	–	488,869	–	488,869
TOTAL ASSETS	128,003,852	16,496,906	4,905,682	3,420,658	17,607,558	37,523,115	17,861,219	4,390,936	230,209,926

\# Included impairment loss.

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest/profit rate risk. The carrying amount of assets and liabilities (include non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
Group 2017	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
LIABILITIES									
Deposits from customers	57,149,272	28,099,987	32,084,700	20,303,029	433,603	518,349	28,276,091	–	166,865,031
Deposits and placements of banks and other financial institutions	8,363,025	8,961,924	2,958,012	324,083	228,293	172,502	71,898	–	21,079,737
Obligations on securities sold under repurchase agreements	603,909	–	–	–	–	–	254	–	604,163
Bills and acceptances payable	49,497	8,864	–	–	–	–	243,791	–	302,152
Clients' and brokers' balances	107,991	–	–	–	–	–	1,261,404	–	1,369,395
General insurance contract liabilities	–	–	–	–	–	–	998,310	–	998,310
Other liabilities	20,150	4,987	2,610	27,142	42,848	4,300	2,613,074	–	2,715,111
Derivative liabilities	–	–	–	1,588	1,493	–	–	2,548,423	2,551,504
Recourse obligation on loans sold to Cagamas	–	–	–	–	1,725,000	–	4,606	–	1,729,606
Tax liabilities	–	–	–	–	–	–	33,531	–	33,531
Deferred tax liabilities	–	–	–	–	–	–	19,698	–	19,698
Borrowings	175,576	20,233	25,291	109,722	820,600	–	2,297	–	1,153,719
Senior debt securities	–	–	–	–	1,212,233	2,019,331	21,017	–	3,252,581
Hybrid Tier-1 Capital Securities	–	–	–	–	594,461	–	8,205	–	602,666
Subordinated obligations	–	–	–	–	2,499,743	1,199,285	49,266	–	3,748,294
TOTAL LIABILITIES	66,469,420	37,095,995	35,070,613	20,765,564	7,558,274	3,913,767	33,603,442	2,548,423	207,025,498
Shareholders' funds	–	–	–	–	–	–	23,149,714	–	23,149,714
NCI	–	–	–	–	–	–	34,714	–	34,714
TOTAL LIABILITIES AND EQUITY	66,469,420	37,095,995	35,070,613	20,765,564	7,558,274	3,913,767	56,787,870	2,548,423	230,209,926
On-balance sheet interest sensitivity gap	61,534,432	(20,599,089)	(30,164,931)	(17,344,906)	10,049,284	33,609,348			
Off-balance sheet interest sensitivity gap	750,000	431,954	794,793	(306,754)	(1,053,710)	1,305,145			
TOTAL INTEREST SENSITIVITY GAP	62,284,432	(20,167,135)	(29,370,138)	(17,651,660)	8,995,574	34,914,493			

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
Bank 2018	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short term funds	7,860,706	–	–	–	–	–	994,620	–	8,855,326
Deposits and placements with banks and other financial institutions	–	1,491,004	533,079	249,681	2,540,810	6,077,013	99,210	–	10,990,797
Financial assets at FVTPL	–	–	–	–	–	–	–	1,891,771	1,891,771
Financial assets at FVOCI	964,986	563,176	745,384	942,413	3,972,026	19,512,407	883,984	–	27,584,376
Financial investments at amortised cost	336,414	347,041	438,140	1,193,527	3,499,435	4,412,661	1,433	–	10,228,651
Loans, advances and financing	85,413,311	8,284,523	2,718,036	1,780,004	3,628,991	5,954,210	437,071	–	108,216,146
Other assets	–	–	–	–	–	–	921,813	–	921,813
Derivative assets	–	–	–	–	–	–	–	1,147,494	1,147,494
Statutory deposits	–	–	–	–	–	–	2,978,677	–	2,978,677
Tax recoverable	–	–	–	–	–	–	351,451	–	351,451
Deferred tax assets	–	–	–	–	–	–	32,490	–	32,490
Investments in subsidiaries	–	–	–	–	–	–	4,911,660	–	4,911,660
Property, plant and equipment	–	–	–	–	–	–	753,531	–	753,531
Goodwill	–	–	–	–	–	–	1,651,542	–	1,651,542
Intangible assets	–	–	–	–	–	–	527,562	–	527,562
TOTAL ASSETS	94,575,417	10,685,744	4,434,639	4,165,625	13,641,262	35,956,291	14,545,044	3,039,265	181,043,287

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank 2018	Non-trading book Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	40,053,794	20,524,628	18,184,544	23,149,265	1,113,157	809,278	23,310,556	–	127,145,222
Deposits and placements of banks and other financial institutions	7,984,058	6,607,584	2,374,142	181,368	190,045	73,575	115,413	–	17,526,185
Obligations on securities sold under repurchase agreements	1,429,471	1,280,908	194,085	–	–	205,992	9,993	–	3,120,449
Bills and acceptances payable	8,056	–	–	–	–	–	239,496	–	247,552
Other liabilities	87,499	1,343	12,786	23,741	78,579	1,300	1,876,875	–	2,082,123
Derivative liabilities	–	–	–	621	–	3,146	–	1,116,520	1,120,287
Recourse obligation on loans sold to Cagamas	–	–	–	1,725,000	1,250,000	–	20,877	–	2,995,877
Borrowings	–	85,436	25,827	20,662	847,129	–	2,795	–	981,849
Senior debt securities	–	–	–	1,238,957	2,063,245	–	21,462	–	3,323,664
Hybrid Tier-1 Capital Securities	–	369,893	–	230,000	–	–	8,342	–	608,235
Subordinated obligations	–	–	–	1,000,000	799,849	749,424	39,793	–	2,589,066
TOTAL LIABILITIES	49,562,878	28,869,792	20,791,384	27,569,614	6,342,004	1,842,715	25,645,602	1,116,520	161,740,509
Total equity	–	–	–	–	–	–	19,302,778	–	19,302,778
TOTAL LIABILITIES AND EQUITY	49,562,878	28,869,792	20,791,384	27,569,614	6,342,004	1,842,715	44,948,380	1,116,520	181,043,287
On-balance sheet interest sensitivity gap	45,012,539	(18,184,048)	(16,356,745)	(23,403,989)	7,299,258	34,113,576			
Off-balance sheet interest sensitivity gap	1,420,543	581,343	1,165,905	2,086,266	5,260,736	1,947,545			
TOTAL INTEREST SENSITIVITY GAP	46,433,082	(17,602,705)	(15,190,840)	(21,317,723)	12,559,994	36,061,121			

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
Bank 2017	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS									
Cash and short term funds	5,675,866	–	–	–	–	–	1,938,797	–	7,614,663
Deposits and placements with banks and other financial institutions	–	1,442,665	1,311,761	1,137,710	2,588,417	4,497,775	296,777	–	11,275,105
Financial assets at FVTPL	–	–	–	–	–	–	–	828,006	828,006
Financial investments AFS	404,087	1,272,492	768,507	1,197,453	5,509,015	11,250,327	1,025,774#	–	21,427,655
Financial investments HTM	13,920	2,057,607	441,485	1,106,097	4,572,445	6,189,711	114,940#	–	14,496,205
Loans, advances and financing									
– performing	87,038,882	8,900,632	2,533,195	370,147	4,080,088	4,567,238	555,851	–	108,046,033
– impaired	–	–	–	–	–	–	1,484,284*	–	1,484,284
Other assets	–	–	–	–	–	–	906,895	–	906,895
Derivative assets	–	–	–	–	–	–	–	1,834,676	1,834,676
Statutory deposits	–	–	–	–	–	–	2,538,107	–	2,538,107
Tax recoverable	–	–	–	–	–	–	58,871	–	58,871
Investments in subsidiaries	–	–	–	–	–	–	4,495,837	–	4,495,837
Property, plant and equipment	–	–	–	–	–	–	756,434	–	756,434
Goodwill	–	–	–	–	–	–	1,651,542	–	1,651,542
Intangible assets	–	–	–	–	–	–	415,690	–	415,690
TOTAL ASSETS	93,132,755	13,673,396	5,054,948	3,811,407	16,749,965	26,505,051	16,239,799	2,662,682	177,830,003

\# Included impairment loss.

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (continued)

Interest/Profit rate risk (continued)

The table below summarises the Group and the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank 2017	Non-trading book: Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	44,963,509	19,348,883	20,801,640	12,010,770	428,470	516,289	23,168,187	–	121,237,748
Deposits and placements of banks and other financial institutions	8,791,978	9,667,698	2,781,703	312,808	227,598	152,512	97,111	–	22,031,408
Obligations on securities sold under repurchase agreements	–	968,712	609,921	–	–	–	9,346	–	1,587,979
Bills and acceptances payable	49,497	2,679	–	–	–	–	234,575	–	286,751
Other liabilities	20,150	4,987	2,610	27,142	42,848	4,300	1,471,509	–	1,573,546
Derivative liabilities	–	–	–	792	1,493	–	–	2,511,695	2,513,980
Recourse obligation on loans sold to Cagamas	–	–	–	–	1,725,000	–	4,606	–	1,729,606
Deferred tax liabilities	–	–	–	–	–	–	14,467	–	14,467
Borrowings	–	20,233	25,291	109,722	820,600	–	2,222	–	978,068
Senior debt securities	–	–	–	–	1,212,233	2,019,331	21,017	–	3,252,581
Hybrid Tier-1 Capital Securities	–	–	–	–	599,460	–	8,218	–	607,678
Subordinated obligations	–	–	–	–	1,799,743	749,285	39,610	–	2,588,638
TOTAL LIABILITIES	53,825,134	30,013,192	24,221,165	12,461,234	6,857,445	3,441,717	25,070,868	2,511,695	158,402,450
Total equity	–	–	–	–	–	–	19,427,553	–	19,427,553
TOTAL LIABILITIES AND EQUITY	53,825,134	30,013,192	24,221,165	12,461,234	6,857,445	3,441,717	44,498,421	2,511,695	177,830,003
On-balance sheet interest sensitivity gap	39,307,621	(16,339,796)	(19,166,217)	(8,649,827)	9,892,520	23,063,334			
Off-balance sheet interest sensitivity gap	750,000	651,954	639,793	343,246	(628,710)	1,305,145			
TOTAL INTEREST SENSITIVITY GAP	40,057,621	(15,687,842)	(18,526,424)	(8,306,581)	9,263,810	24,368,479			

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Group and the Bank have adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Group and the Bank continue to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Group and the Bank seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity:

Group 2018	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short term funds	8,788,657	3,758,767	–	–	–	–	5,764	12,553,188
Deposits and placements with banks and other financial institutions	–	–	491,152	115,868	80,765	210,335	–	898,120
Financial assets at FVTPL	899,268	–	26,091	19,846	24,411	2,087,812	743,221	3,800,649
Financial assets at FVOCI	155,996	822,933	778,276	786,192	1,076,243	28,280,981	677,212	32,577,833
Financial investments at amortised cost	26,103	252,367	407,881	539,095	1,357,313	11,507,516	–	14,090,275
Loans, advances and financing	12,669,760	78,140,144	7,178,877	2,606,163	1,386,079	63,648,751	–	165,629,774
Clients' and brokers' balances	813,052	126,985	–	–	–	–	3,019	943,056
Reinsurance assets	–	–	–	–	511,236	–	–	511,236
Other assets	538,872	58,537	41,965	103,955	160,191	240,046	346,273	1,489,839
Derivative assets	16,609	84,378	192,984	158,936	306,523	371,627	–	1,131,057
Statutory deposits	–	–	–	–	–	–	4,795,230	4,795,230
Tax recoverable	–	–	–	–	–	–	389,172	389,172
Deferred tax assets	–	–	–	–	–	–	79,191	79,191
Investments in associates and joint ventures	–	–	–	–	–	–	25,352	25,352
Property, plant and equipment	–	–	–	–	–	–	999,962	999,962
Goodwill	–	–	–	–	–	–	2,649,307	2,649,307
Intangible assets	–	–	–	–	–	–	602,438	602,438
TOTAL ASSETS	23,908,317	83,244,111	9,117,226	4,330,055	4,902,761	106,347,068	11,316,141	243,165,679

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

Group 2018	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	58,276,158	24,081,177	31,481,492	28,683,625	34,115,443	2,214,989	3,446	178,856,330
Deposits and placements of banks and other financial institutions	1,991,901	6,243,680	6,647,975	2,866,284	236,438	304,616	–	18,290,894
Obligations on securities sold under repurchase agreements	–	832,668	960,378	194,422	–	206,856	–	2,194,324
Bills and acceptances payable	269,332	481	31,790	–	–	–	–	301,603
Clients' and brokers' balances	592,134	249,648	–	–	–	–	–	841,782
General insurance contract liabilities	–	–	–	–	1,094,114	–	–	1,094,114
Other liabilities	859,865	682,789	299,415	126,246	310,777	304,214	339,250	2,922,556
Derivative liabilities	19,243	117,660	186,545	138,240	324,476	330,537	–	1,116,701
Recourse obligation on loans sold to Cagamas	–	–	–	–	1,729,826	3,536,290	–	5,266,116
Tax liabilities	–	–	–	–	–	–	24,578	24,578
Deferred tax liabilities	–	–	–	–	–	196	2,112	2,308
Borrowings	143,331	–	145,937	25,827	20,661	847,129	–	1,182,885
Senior debt securities	–	–	–	21,462	1,238,957	2,063,245	–	3,323,664
Hybrid Tier-1 Capital Securities	–	–	369,893	8,328	225,000	–	–	603,221
Subordinated obligations	–	23,925	9,409	1,016,048	1,000,000	1,699,273	–	3,748,655
TOTAL LIABILITIES	62,151,964	32,232,028	40,132,834	33,080,482	40,295,692	11,507,345	369,386	219,769,731
Shareholders' funds	–	–	–	–	–	–	23,357,987	23,357,987
NCI	–	–	–	–	–	–	37,961	37,961
TOTAL LIABILITIES AND EQUITY	62,151,964	32,232,028	40,132,834	33,080,482	40,295,692	11,507,345	23,765,334	243,165,679

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

Group 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short term funds	9,242,803	702,569	–	–	–	–	6,506	9,951,878
Deposits and placements with banks and other financial institutions	–	–	973,754	126,185	61,040	622	–	1,161,601
Financial assets at FVTPL	734,775	17,231	16,559	5,554	–	983,983	806,167	2,564,269
Financial investments AFS	34,852	383,388	1,324,319	895,084	1,419,639	20,668,536	1,090,798	25,816,616
Financial investments HTM	29,009	4,569	3,743,726	705,283	1,422,989	13,140,367	–	19,045,943
Loans, advances and financing	4,735,443	23,587,019	9,639,627	4,669,912	2,030,653	113,638,809	–	158,301,463
Clients' and brokers' balances	1,119,716	479,878	–	–	–	–	–	1,599,594
Reinsurance assets	–	–	–	–	482,760	–	–	482,760
Other assets	181,040	108,539	70,250	115,962	60,433	238,471	331,353	1,106,048
Derivative assets	58,914	564,716	133,177	130,666	343,240	595,954	–	1,826,667
Statutory deposits	–	–	–	–	–	–	4,001,002	4,001,002
Tax recoverable	–	–	–	–	–	–	115,874	115,874
Deferred tax assets	–	–	–	–	–	–	36,072	36,072
Investments in associates and joint ventures	–	–	–	–	–	–	48,253	48,253
Property, plant and equipment	–	–	–	–	–	–	1,013,710	1,013,710
Goodwill	–	–	–	–	–	–	2,649,307	2,649,307
Intangible assets	–	–	–	–	–	–	488,869	488,869
TOTAL ASSETS	16,136,552	25,847,909	15,901,412	6,648,646	5,820,754	149,266,742	10,587,911	230,209,926

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

Group 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	60,960,666	23,424,993	28,431,227	32,585,490	20,497,288	965,367	–	166,865,031
Deposits and placements of banks and other financial institutions	2,550,374	5,832,521	8,992,048	2,971,605	326,229	406,960	–	21,079,737
Obligations on securities sold under repurchase agreements	604,163	–	–	–	–	–	–	604,163
Bills and acceptances payable	197,722	95,566	8,864	–	–	–	–	302,152
Clients' and brokers' balances	960,338	409,057	–	–	–	–	–	1,369,395
General insurance contract liabilities	–	–	–	–	998,310	–	–	998,310
Other liabilities	415,013	666,282	321,789	112,643	261,580	338,472	599,332	2,715,111
Derivative liabilities	80,110	672,438	634,136	230,203	396,062	538,555	–	2,551,504
Recourse obligation on loans sold to Cagamas	–	–	–	–	–	1,729,606	–	1,729,606
Tax liabilities	–	–	–	–	–	–	33,531	33,531
Deferred tax liabilities	–	–	–	–	–	–	19,698	19,698
Borrowings	163,226	12,425	22,455	25,291	109,722	820,600	–	1,153,719
Senior debt securities	–	–	–	21,017	–	3,231,564	–	3,252,581
Hybrid Tier-1 Capital Securities	–	–	–	8,205	–	594,461	–	602,666
Subordinated obligations	–	–	9,409	35,594	–	3,703,291	–	3,748,294
TOTAL LIABILITIES	65,931,612	31,113,282	38,419,928	35,990,048	22,589,191	12,328,876	652,561	207,025,498
Shareholders' funds	–	–	–	–	–	–	23,149,714	23,149,714
NCI	–	–	–	–	–	–	34,714	34,714
TOTAL LIABILITIES AND EQUITY	65,931,612	31,113,282	38,419,928	35,990,048	22,589,191	12,328,876	23,836,989	230,209,926

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

Bank 2018	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short term funds	5,272,510	3,582,816	–	–	–	–	–	8,855,326
Deposits and placements with banks and other financial institutions	–	–	1,497,173	536,123	253,056	8,704,445	–	10,990,797
Financial assets at FVTPL	12,145	–	26,091	15,538	24,411	1,813,586	–	1,891,771
Financial assets at FVOCI	154,617	822,933	579,442	755,996	946,253	23,687,678	637,457	27,584,376
Financial investments at amortised cost	24,035	252,367	347,386	439,028	1,198,809	7,967,026	–	10,228,651
Loans, advances and financing	10,043,903	74,211,939	5,568,880	2,021,255	564,720	15,805,449	–	108,216,146
Other assets	152,887	31,732	37,301	95,509	163,220	166,878	274,286	921,813
Derivative assets	23,385	89,452	197,988	158,765	306,650	371,254	–	1,147,494
Statutory deposits	–	–	–	–	–	–	2,978,677	2,978,677
Tax recoverable	–	–	–	–	–	–	351,451	351,451
Deferred tax assets	–	–	–	–	–	–	32,490	32,490
Investments in subsidiaries	–	–	–	–	–	–	4,911,660	4,911,660
Property, plant and equipment	–	–	–	–	–	–	753,531	753,531
Goodwill	–	–	–	–	–	–	1,651,542	1,651,542
Intangible assets	–	–	–	–	–	–	527,562	527,562
TOTAL ASSETS	**15,683,482**	**78,991,239**	**8,254,261**	**4,022,214**	**3,457,119**	**58,516,316**	**12,118,656**	**181,043,287**
LIABILITIES								
Deposits from customers	46,736,621	15,863,905	20,805,867	18,457,843	23,341,561	1,939,425	–	127,145,222
Deposits and placements of banks and other financial institutions	1,943,670	6,157,592	6,591,083	2,386,315	183,365	264,160	–	17,526,185
Obligations on securities sold under repurchase agreements	–	1,435,379	1,283,792	194,422	–	206,856	–	3,120,449
Bills and acceptances payable	247,071	481	–	–	–	–	–	247,552
Other liabilities	686,765	418,938	196,759	70,235	271,902	287,529	149,995	2,082,123
Derivative liabilities	23,617	122,635	185,561	133,467	324,349	330,658	–	1,120,287
Recourse obligation on loans sold to Cagamas	–	–	–	–	1,729,826	1,266,051	–	2,995,877
Borrowings	–	–	88,231	25,827	20,662	847,129	–	981,849
Senior debt securities	–	–	–	21,462	1,238,957	2,063,245	–	3,323,664
Hybrid Tier-1 Capital Securities	–	–	369,893	8,342	230,000	–	–	608,235
Subordinated obligations	–	23,925	9,409	506,459	1,000,000	1,049,273	–	2,589,066
TOTAL LIABILITIES	**49,637,744**	**24,022,855**	**29,530,595**	**21,804,372**	**28,340,622**	**8,254,326**	**149,995**	**161,740,509**
Total equity	–	–	–	–	–	–	19,302,778	19,302,778
TOTAL LIABILITIES AND EQUITY	**49,637,744**	**24,022,855**	**29,530,595**	**21,804,372**	**28,340,622**	**8,254,326**	**19,452,773**	**181,043,287**

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

Bank 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short term funds	5,764,635	1,850,028	–	–	–	–	–	7,614,663
Deposits and placements with banks and other financial institutions	–	–	1,447,640	1,317,057	1,166,898	7,343,510	–	11,275,105
Financial assets at FVTPL	–	–	16,559	–	–	811,447	–	828,006
Financial investments AFS	34,162	381,415	1,295,727	777,439	1,207,081	16,934,826	797,005	21,427,655
Financial investments HTM	19,009	2,530	2,070,513	443,798	1,117,305	10,843,050	–	14,496,205
Loans, advances and financing	2,447,025	19,555,453	8,813,155	2,512,539	492,797	75,709,348	–	109,530,317
Other assets	135,171	66,466	54,212	187,561	71,386	177,466	214,633	906,895
Derivative assets	60,043	563,889	137,047	131,021	346,266	596,410	–	1,834,676
Statutory deposits	–	–	–	–	–	–	2,538,107	2,538,107
Tax recoverable	–	–	–	–	–	–	58,871	58,871
Investments in subsidiaries	–	–	–	–	–	–	4,495,837	4,495,837
Property, plant and equipment	–	–	–	–	–	–	756,434	756,434
Goodwill	–	–	–	–	–	–	1,651,542	1,651,542
Intangible assets	–	–	–	–	–	–	415,690	415,690
TOTAL ASSETS	8,460,045	22,419,781	13,834,853	5,369,415	4,401,733	112,416,057	10,928,119	177,830,003
LIABILITIES								
Deposits from customers	50,147,182	17,337,360	19,599,426	21,087,429	12,108,396	957,955	–	121,237,748
Deposits and placements of banks and other financial institutions	3,217,144	5,618,801	9,700,461	2,793,881	314,850	386,271	–	22,031,408
Obligations on securities sold under repurchase agreements	–	–	975,560	612,419	–	–	–	1,587,979
Bills and acceptances payable	188,506	95,566	2,679	–	–	–	–	286,751
Other liabilities	45,238	480,133	193,756	57,656	228,075	328,990	239,698	1,573,546
Derivative liabilities	81,538	669,963	598,062	231,073	394,380	538,964	–	2,513,980
Recourse obligation on loans sold to Cagamas	–	–	–	–	–	1,729,606	–	1,729,606
Deferred tax liabilities	–	–	–	–	–	–	14,467	14,467
Borrowings	–	–	22,455	25,291	109,722	820,600	–	978,068
Senior debt securities	–	–	–	21,017	–	3,231,564	–	3,252,581
Hybrid Tier-1 Capital Securities	–	–	–	8,218	–	599,460	–	607,678
Subordinated obligations	–	–	9,409	30,201	–	2,549,028	–	2,588,638
TOTAL LIABILITIES	53,679,608	24,201,823	31,101,808	24,867,185	13,155,423	11,142,438	254,165	158,402,450
Total equity	–	–	–	–	–	–	19,427,553	19,427,553
TOTAL LIABILITIES AND EQUITY	53,679,608	24,201,823	31,101,808	24,867,185	13,155,423	11,142,438	19,681,718	177,830,003

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The following table presents the cash outflows for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Group 2018	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	80,199,097	61,793,384	35,627,706	1,364,333	835,968	97,405	179,917,893
Deposits and placements of banks and other financial institutions	7,073,307	6,803,476	4,752,386	451,028	112,147	–	19,192,344
Obligations on securities sold under repurchase agreements	839,373	1,183,549	–	–	–	243,754	2,266,676
Bills and acceptances payable	271,454	31,856	–	–	–	–	303,310
Clients' and brokers' balances	841,782	–	–	–	–	–	841,782
General insurance contract liabilities	–	–	1,094,114	–	–	–	1,094,114
Other financial liabilities	1,456,071	508,208	306,893	138,374	21,433	79,477	2,510,456
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(11,870,625)	(23,455,329)	(3,516,555)	(952,430)	(604,937)	(665,885)	(41,065,761)
– Outflow	11,983,153	23,820,223	3,830,175	1,074,041	749,196	807,724	42,264,512
– Net settled derivatives	1,018	19,365	15,245	93,618	62,712	152,589	344,547
Recourse obligation on loans sold to Cagamas	54,362	54,362	1,859,420	3,573,740	–	–	5,541,884
Borrowings	143,331	179,625	30,107	865,569	–	–	1,218,632
Senior debt securities	–	21,209	1,280,040	2,150,986	–	–	3,452,235
Hybrid Tier-1 Capital Securities	–	392,394	232,594	–	–	–	624,988
Subordinated obligations	24,950	1,066,648	1,061,302	629,690	1,264,250	–	4,046,840
TOTAL FINANCIAL LIABILITIES	**91,017,273**	**72,418,970**	**46,573,427**	**9,388,949**	**2,440,769**	**715,064**	**222,554,452**
2017							
Deposits from customers	84,614,754	61,644,110	20,993,260	466,633	520,721	–	168,239,478
Deposits and placements of banks and other financial institutions	8,530,587	11,875,922	334,139	235,720	262,442	–	21,238,810
Obligations on securities sold under repurchase agreements	604,265	–	–	–	–	–	604,265
Bills and acceptances payable	293,288	8,864	–	–	–	–	302,152
Clients' and brokers' balances	1,369,395	–	–	–	–	–	1,369,395
General insurance contract liabilities	–	–	267,761	357,304	57,671	9,450	692,186
Other financial liabilities	1,009,770	637,447	259,575	257,005	39,175	51,321	2,254,293
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(14,954,127)	(20,202,383)	(5,473,116)	(2,627,584)	(655,249)	(787,326)	(44,699,785)
– Outflow	16,230,693	21,977,628	5,915,403	3,103,011	812,095	1,008,887	49,047,717
– Net settled derivatives	3,853	52,605	4,678	55,685	44,018	103,941	264,780
Recourse obligation on loans sold to Cagamas	–	39,919	39,919	1,805,058	–	–	1,884,896
Borrowings	175,651	94,670	93,736	839,106	–	–	1,203,163
Senior debt securities	–	39,513	39,513	1,353,272	2,064,813	–	3,497,111
Hybrid Tier-1 Capital Securities	–	22,394	22,394	624,988	–	–	669,776
Subordinated obligations	24,950	66,648	91,652	2,730,567	1,310,173	–	4,223,990
TOTAL FINANCIAL LIABILITIES	97,903,079	76,257,337	22,588,914	9,200,765	4,455,859	386,273	210,792,227

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Bank 2018	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	62,075,982	39,544,769	23,955,306	1,188,826	728,053	97,405	127,590,341
Deposits and placements of banks and other financial institutions	6,991,462	6,252,102	4,728,698	446,589	74,376	–	18,493,227
Obligations on securities sold under repurchase agreements	1,454,883	1,514,682	–	–	–	243,754	3,213,319
Bills and acceptances payable	249,176	–	–	–	–	–	249,176
Other financial liabilities	1,019,744	352,589	269,779	129,712	21,433	66,374	1,859,631
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(12,927,310)	(23,301,051)	(3,518,422)	(962,268)	(642,264)	(698,997)	(42,050,312)
– Outflow	13,049,628	23,601,389	3,818,954	1,027,299	703,364	775,960	42,976,594
– Net settled derivatives	777	17,112	17,738	92,533	62,712	150,216	341,088
Recourse obligation on loans sold to Cagamas	–	–	1,805,058	1,330,846	–	–	3,135,904
Borrowings	–	121,919	30,107	865,569	–	–	1,017,595
Senior debt securities	–	21,209	1,280,040	2,150,986	–	–	3,452,235
Hybrid Tier-1 Capital Securities	–	392,563	237,763	–	–	–	630,326
Subordinated obligations	24,950	538,350	1,051,425	380,700	786,150	–	2,781,575
TOTAL FINANCIAL LIABILITIES	71,939,292	49,055,633	33,676,446	6,650,792	1,733,824	634,712	163,690,699
2017							
Deposits from customers	67,639,374	41,082,316	12,355,986	459,152	518,220	–	122,055,048
Deposits and placements of banks and other financial institutions	8,949,066	12,442,697	321,840	235,373	242,536	–	22,191,512
Obligations on securities sold under repurchase agreements	–	1,642,861	–	–	–	–	1,642,861
Bills and acceptances payable	284,072	2,679	–	–	–	–	286,751
Other financial liabilities	458,364	318,371	228,706	238,025	39,175	52,071	1,334,712
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(15,500,899)	(20,251,977)	(5,494,010)	(2,874,284)	(700,041)	(839,500)	(45,660,711)
– Outflow	16,781,879	22,023,431	5,914,524	3,223,686	748,499	956,896	49,648,915
– Net settled derivatives	1,078	20,127	13,736	60,146	43,398	103,941	242,426
Recourse obligation on loans sold to Cagamas	–	39,919	39,919	1,805,058	–	–	1,884,896
Borrowings	–	94,670	93,736	839,106	–	–	1,027,512
Senior debt securities	–	39,513	39,513	1,353,272	2,064,813	–	3,497,111
Hybrid Tier-1 Capital Securities	–	22,563	22,563	630,325	–	–	675,451
Subordinated obligations	24,950	38,350	63,300	1,959,275	822,300	–	2,908,175
TOTAL FINANCIAL LIABILITIES	78,637,884	57,515,520	13,599,813	7,929,134	3,778,900	273,408	161,734,659

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

	Group		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2018			
Direct credit substitutes	**295,825**	**1,290,638**	**1,586,463**
Transaction-related contingent items	**1,178,067**	**4,011,556**	**5,189,623**
Short term self-liquidating trade-related contingencies	**764,248**	**332,714**	**1,096,962**
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions, and commitment to buy-back Islamic securities under Sell and Buy Back Agreement transactions	**2,179,881**	**1,120,151**	**3,300,032**
Irrevocable commitments to extend credit	**1,903,660**	**27,844,792**	**29,748,452**
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	**–**	**20,361**	**20,361**
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**368,888**	**14,689,248**	**15,058,136**
TOTAL COMMITMENTS AND CONTINGENCIES	**6,690,569**	**49,309,460**	**56,000,029**
2017			
Direct credit substitutes	257,838	1,455,919	1,713,757
Transaction-related contingent items	1,176,051	4,065,477	5,241,528
Short term self-liquidating trade-related contingencies	781,657	281,301	1,062,958
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions, and commitment to buy-back Islamic securities under Sell and Buy Back Agreement transactions	–	629,085	629,085
Irrevocable commitments to extend credit	2,215,137	28,020,104	30,235,241
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	722,678	14,900,221	15,622,899
TOTAL COMMITMENTS AND CONTINGENCIES	5,153,361	49,352,107	54,505,468

Notes to the Financial Statements
for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	Bank		
	Less than 1 year RM'000	**Over 1 year RM'000**	**Total RM'000**
2018			
Direct credit substitutes	**281,677**	**1,284,051**	**1,565,728**
Transaction-related contingent items	**1,138,780**	**3,722,503**	**4,861,283**
Short term self-liquidating trade-related contingencies	**758,136**	**297,573**	**1,055,709**
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions, and commitment to buy-back Islamic securities under Sell and Buy Back Agreement transactions	**2,179,881**	**1,120,151**	**3,300,032**
Irrevocable commitments to extend credit	**516,646**	**20,302,395**	**20,819,041**
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	**–**	**20,361**	**20,361**
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**349,741**	**12,395,200**	**12,744,941**
TOTAL COMMITMENTS AND CONTINGENCIES	**5,224,861**	**39,142,234**	**44,367,095**
2017			
Direct credit substitutes	251,157	1,440,537	1,691,694
Transaction-related contingent items	1,145,763	3,851,824	4,997,587
Short term self-liquidating trade-related contingencies	733,183	241,996	975,179
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions, and commitment to buy-back Islamic securities under Sell and Buy Back Agreement transactions	1,657,649	–	1,657,649
Irrevocable commitments to extend credit	548,057	20,464,906	21,012,963
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	689,475	12,666,205	13,355,680
TOTAL COMMITMENTS AND CONTINGENCIES	5,025,284	38,665,468	43,690,752

Undrawn loans/financing commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group and the Bank. The Group and the Bank expect that not all of the contingent liabilities and undrawn loan/financing commitments will be drawn before expiry.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

The table below shows the credit exposure of the Group and the Bank that are subject to impairment:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Credit risk exposure relating to on-balance sheet assets:				
Short term funds (exclude cash in hand)	**11,464,332**	8,842,240	**7,839,388**	6,687,946
Deposits and placements with banks and other financial institutions	**898,120**	1,161,601	**10,990,797**	11,275,105
Financial investments AFS	**–**	24,721,745*	**–**	20,626,578*
Financial investments HTM	**–**	19,045,943	**–**	14,496,205
Financial assets at FVOCI	**31,900,621^**	–	**26,946,919^**	–
Financial investments at amortised cost	**14,090,275**	–	**10,228,651**	–
Loans, advances and financing	**165,629,774**	158,301,463	**108,216,146**	109,530,317
Clients' and brokers' balances	**943,056**	1,599,594	**–**	–
Reinsurance assets	**411,881**	377,685	**–**	–
Other financial assets	**956,588**	755,025	**602,692**	584,214
	226,294,647	214,805,296	**164,824,593**	163,200,365
Credit risk exposure relating to off-balance sheet items:				
– Commitments and contingencies	**56,000,029**	54,505,468	**44,367,095**	43,690,752
Total maximum credit risk exposure that are subject to impairment	**282,294,676**	269,310,764	**209,191,688**	206,891,117

^ Exclude shares and unit trust.

* Exclude shares, unit trust and perpetual notes/sukuk.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(i) Maximum exposure to credit risk (continued)

The table below shows the credit exposure of the Group and the Bank that are not subject to impairment:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Financial assets at FVTPL	**3,800,649**	2,564,269	**1,891,771**	828,006
Financial investments AFS	**–**	1,094,871	**–**	801,077
Financial assets at FVOCI	**677,212**	–	**637,457**	–
Derivative assets	**1,131,057**	1,826,667	**1,147,494**	1,834,676
	5,608,918	5,485,807	**3,676,722**	3,463,759

(ii) Collaterals

The main types of collateral obtained by the Group and the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable instrument of deposits, Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins

(b) Land and/or buildings

(c) Vessels and automobiles

(d) Quoted shares, unit trusts, government bonds and securities and private debt securities

(e) Other tangible business assets, such as inventory and equipment

The Group and the Bank also accept non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, Endowment Life Policies with Cash Surrender Value, which are subject to internal guidelines on eligibility.

The outstanding balance for loans, advances and financing for which no allowances is recognised because of collateral as at 31 December 2018 amounted to RM1,804.9 million and RM1,721.4 million respectively for the Group and the Bank.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for loans, advances and financing and clients' and brokers' balances as at 31 December 2018 for the Group and the Bank are 75.7% (2017: 71.8%) and 76.2% (2017: 74.2%) respectively. The financial effect of collateral held for the remaining on-balance sheet assets are insignificant.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(ii) Collaterals (continued)

The following table shows the loans, advances and financing that are credit-impaired and related collateral held:

2018	Gross outstanding RM'000	Credit losses RM'000	Net carrying amount RM'000	Collateral value over gross outstanding %
Group				
Loans, advances and financing	**3,483,554**	**(1,665,078)**	**1,818,476**	**73.7**
Bank				
Loans, advances and financing	**2,555,206**	**(1,193,133)**	**1,362,073**	**69.2**

(iii) Credit exposure by stage

Financial assets of the Group and Bank are classified into three stages as below:

Stages	Description
Stage 1: 12 months ECL – not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL – not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL – credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

For further details on the stages, refer to accounting policy Note 4(d).

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality

The Group and the Bank assess credit quality of loans, advances and financing using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers' judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
– Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Group and the Bank
– Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Group and the Bank
– No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit rating system
– Credit impaired	When one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows have occurred

The credit quality of financial assets other than loans, advances and financing are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

Credit Quality	Ratings
– Good	Aaa to A3
– Fair	Baa1 to Baa3
– No Rating	Unrated
– Credit impaired	Default

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

Group 2018	Gross Carrying Amount Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach						
Short term funds (exclude cash in hand)	5,487,729	182,737	5,797,902	–	11,468,368	(4,036)
Stage 1	5,487,729	182,737	5,797,902	–	11,468,368	(4,036)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Deposits and placements with banks and other financial institutions	602,604	–	295,791	–	898,395	(275)
Stage 1	602,604	–	295,791	–	898,395	(275)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial assets at FVOCI	15,015,963	70,251	16,809,155	5,252	31,900,621	(56,283)
Stage 1	15,005,849	70,251	16,809,155	–	31,885,255	(55,977)
Stage 2	10,114	–	–	–	10,114	(306)
Stage 3	–	–	–	5,252	5,252	–
Financial investments at amortised cost	2,703,160	–	11,587,057	141,405	14,431,622	(341,347)
Stage 1	2,703,160	–	10,943,925	–	13,647,085	(23,820)
Stage 2	–	–	643,132	–	643,132	(176,683)
Stage 3	–	–	–	141,405	141,405	(140,844)
Loans, advances and financing	99,181,661	34,609,496	31,603,816	3,483,554	168,878,527	(3,251,593)
Stage 1	96,113,198	26,445,728	28,236,338	–	150,795,264	(591,911)
Stage 2	3,068,463	8,163,768	3,367,478	–	14,599,709	(994,604)
Stage 3	–	–	–	3,483,554	3,483,554	(1,665,078)
	122,991,117	34,862,484	66,093,721	3,630,211	227,577,533	(3,653,534)

Group 2018	Current RM'000	Current to less than 90 days past due RM'000	More than 90 days past due RM'000	Total RM'000
Simplified Approach				
Gross carrying amount:				
– Clients' and brokers' balances	813,052	127,238	22,330	962,620
– Other receivables	107,438	48,392	78,520	234,350
	920,490	175,630	100,850	1,196,970

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

The following table contains an analysis of the credit exposure by stages, together with the ECL allowance provision:

Bank 2018	Gross Carrying Amount Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach						
Short term funds (exclude cash in hand)	5,726,970	53,852	2,061,700	–	7,842,522	(3,134)
Stage 1	5,726,970	53,852	2,061,700	–	7,842,522	(3,134)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Deposits and placements with banks and other financial institutions	10,908,322	–	82,736	–	10,991,058	(261)
Stage 1	10,908,322	–	82,736	–	10,991,058	(261)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial assets at FVOCI	13,853,318	70,251	13,018,098	5,252	26,946,919	(50,278)
Stage 1	13,853,318	70,251	13,018,098	–	26,941,667	(50,278)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	5,252	5,252	–
Financial investments at amortised cost	2,195,797	–	8,225,739	63,341	10,484,877	(256,226)
Stage 1	2,195,797	–	8,225,739	–	10,421,536	(19,017)
Stage 2	–	–	–	–	–	(174,430)
Stage 3	–	–	–	63,341	63,341	(62,779)
Loans, advances and financing	67,260,236	21,771,605	19,084,358	2,555,206	110,671,405	(2,457,132)
Stage 1	65,053,325	15,945,234	16,206,729	–	97,205,288	(489,408)
Stage 2	2,206,911	5,826,371	2,877,629	–	10,910,911	(774,591)
Stage 3	–	–	–	2,555,206	2,555,206	(1,193,133)
	99,944,643	21,895,708	42,472,631	2,623,799	166,936,781	(2,767,031)

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitments and contingencies, are set out below:

Group 2018	Short term funds and deposits and placements with banks and other financial institutions˅ RM'000	Financial assets at FVTPL~ RM'000	Financial assets at FVOCI@ RM'000	Financial investments at amortised cost¥ RM'000	Loans, advances and financing# RM'000	Clients' and brokers' balances^ RM'000	Reinsurance assets RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	112,176	105,486	3,699,545	–	–	119	842,452	4,759,778
Mining and quarrying	–	–	101,658	15,134	1,114,646	–	–	5	663,232	1,894,675
Manufacturing	–	–	75,759	560	8,128,792	–	–	5,011	6,889,380	15,099,502
Electricity, gas and water	–	199,446	1,676,267	141,218	2,173,847	–	–	25,854	643,030	4,859,662
Construction	–	–	1,071,397	484,887	12,012,313	–	–	1,518	7,634,210	21,204,325
Real estate	–	–	946,526	566,333	4,778,546	–	–	5,963	–	6,297,368
Wholesale & retail trade and restaurant & hotel	–	–	45,922	132,230	12,695,131	–	–	3,838	6,061,119	18,938,240
Transport, storage and communication	–	12,145	2,406,898	950,796	7,533,612	–	–	72,104	790,532	11,766,087
Finance, insurance and business services	7,547,259	400,683	13,707,266	6,926,041	15,294,423	–	–	1,343,003	11,965,789	57,184,464
Government and government agencies	4,819,504	1,558,954	11,756,752	4,959,467	5,449,188	–	–	–	–	28,543,865
Purchase of securities	–	–	–	–	1,163,449	943,309	–	–	–	2,106,758
Consumption credit	–	–	–	–	2,128,826	–	–	–	5,025,295	7,154,121
Others	–	–	–	8,626	91,041,131	–	411,881	630,230	15,484,990	107,576,858
	12,366,763	2,171,228	31,900,621	14,290,778	167,213,449	943,309	411,881	2,087,645	56,000,029	287,385,703

˅ Excludes stage 1 expected credit losses amounting to RM4,311,000.

~ Excludes equity instruments amounting to RM1,629,421,000.

@ Excludes equity instruments amounting to RM677,212,000.

¥ Excludes stage 1 and stage 2 expected credit losses amounting to RM200,503,000.

\# Excludes stage 1 and stage 2 expected credit losses amounting to RM1,586,515,000 and positive fair value charges amounting to RM2,840,000.

^ Excludes allowance for credit losses for non-credit impaired amounting to RM253,000.

* Other financial assets include other assets amounting to RM956,588,000 and derivative assets amounting to RM1,131,057,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

Bank 2018	Short term funds and deposits and placements with banks and other financial institutionsˇ RM'000	Financial assets at FVTPL~ RM'000	Financial assets at FVOCI@ RM'000	Financial investments at amortised cost¥ RM'000	Loans, advances and financing# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	72,125	–	2,445,209	119	591,330	3,108,783
Mining and quarrying	–	–	101,658	15,134	326,317	5	659,100	1,102,214
Manufacturing	–	–	75,759	560	6,410,465	4,441	6,097,807	12,589,032
Electricity, gas and water	–	199,446	1,480,435	105,778	1,794,861	24,584	574,156	4,179,260
Construction	–	–	792,083	377,323	7,720,929	18	6,030,771	14,921,124
Real estate	–	–	722,452	262,990	3,333,318	–	–	4,318,760
Wholesale & retail trade and restaurant & hotel	–	–	45,922	132,230	10,503,674	3,800	5,580,250	16,265,876
Transport, storage and communication	–	12,145	1,865,226	905,198	2,679,965	70,856	641,838	6,175,228
Finance, insurance and business services	17,396,177	390,158	12,654,184	5,125,257	10,227,387	1,504,602	9,449,436	56,747,201
Government and government agencies	1,437,403	1,284,728	9,137,075	3,497,628	1,941,949	–	–	17,298,783
Consumption credit	–	–	–	–	1,847,264	–	4,420,676	6,267,940
Others	–	–	–	–	60,246,934	141,761	10,321,731	70,710,426
	18,833,580	1,886,477	26,946,919	10,422,098	109,478,272	1,750,186	44,367,095	213,684,627

ˇ Excludes stage 1 expected credit losses amounting to RM3,395,000.

~ Excludes equity instruments amounting to RM5,294,000.

@ Excludes equity instruments amounting to RM637,457,000.

¥ Excludes stage 1 and stage 2 expected credit losses amounting to RM193,447,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM1,263,999,000 and positive fair value charges amounting to RM1,873,000.

* Other financial assets include other assets amounting to RM602,692,000 and derivative assets amounting to RM1,147,494,000.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Group's financial assets, including commitments and contingencies, are set out below:

Group 2018	Short term funds and deposits and placements with banks and other financial institutions˅ RM'000	Financial assets at FVTPL~ RM'000	Financial assets at FVOCI@ RM'000	Financial investments at amortised cost¥ RM'000	Loans, advances and financing# RM'000	Clients' and brokers' balances^ RM'000	Reinsurance assets RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Southeast Asia	9,430,215	1,981,840	28,793,207	14,290,778	163,832,477	899,752	349,127	1,840,736	52,121,134	273,539,266
– Malaysia	6,277,242	1,899,402	24,536,392	14,038,717	148,694,180	535,362	347,265	1,664,374	46,902,514	244,895,448
– Singapore	1,209,188	82,438	2,970,777	212,636	10,453,961	146,073	1,862	126,905	3,404,846	18,608,686
– Thailand	93,139	–	1,180,374	–	278,602	123,796	–	28,968	832,867	2,537,746
– Brunei	128,361	–	–	39,425	1,616,660	–	–	–	202,201	1,986,647
– Indonesia	148,134	–	105,664	–	618,004	94,521	–	10,391	196,314	1,173,028
– Cambodia	976,904	–	–	–	1,826,466	–	–	8,481	542,135	3,353,986
– Laos	448,871	–	–	–	223,183	–	–	1,617	38,189	711,860
– Vietnam	22,399	–	–	–	76,689	–	–	–	985	100,073
– Philippines	125,977	–	–	–	22,503	–	–	–	904	149,384
– Myanmar	–	–	–	–	22,229	–	–	–	179	22,408
South Asia	492,597	118,358	548,949	–	501,328	29	–	1,622	329,005	1,991,888
East Asia	1,696,452	37,859	883,155	–	741,602	43,528	–	128,512	2,437,582	5,968,690
Central Asia	–	–	–	–	1,540	–	–	–	–	1,540
Middle East	5,188	–	119,240	–	86,855	–	–	–	103	211,386
Europe	84,826	33,171	1,090,867	–	163,020	–	–	110,232	830,430	2,312,546
North America	652,132	–	465,203	–	1,508,854	–	–	6,543	280,309	2,913,041
Others	5,353	–	–	–	377,773	–	62,754	–	1,466	447,346
	12,366,763	2,171,228	31,900,621	14,290,778	167,213,449	943,309	411,881	2,087,645	56,000,029	287,385,703

˅ Excludes stage 1 expected credit losses amounting to RM4,311,000.

~ Excludes equity instruments amounting to RM1,629,421,000.

@ Excludes equity instruments amounting to RM677,212,000.

¥ Excludes stage 1 and stage 2 expected credit losses amounting to RM200,503,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM1,586,515,000 and positive fair value charges amounting to RM2,840,000.

^ Excludes allowance for credit losses for non-credit impaired amounting to RM253,000.

* Other financial assets include other assets amounting to RM956,588,000 and derivative assets amounting to RM1,131,057,000.

Notes to the Financial Statements
for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

Bank 2018	Short term funds and deposits and placements with banks and other financial institutions[ˇ] RM'000	Financial assets at FVTPL[~] RM'000	Financial assets at FVOCI[@] RM'000	Financial investments at amortised cost[¥] RM'000	Loans, advances and financing[#] RM'000	Other financial assets[*] RM'000	Commitments and contingencies RM'000	Total RM'000
Southeast Asia	16,467,250	1,697,089	23,864,985	10,422,098	108,042,849	1,509,797	41,576,641	203,580,709
– Malaysia	14,865,529	1,614,651	19,608,172	10,170,037	95,738,422	1,418,694	37,564,406	180,979,911
– Singapore	1,197,699	82,438	2,970,775	212,636	10,208,848	86,802	3,168,495	17,927,693
– Thailand	31,604	–	1,180,374	–	5,877	4,301	607,507	1,829,663
– Brunei	24,055	–	–	39,425	1,615,284	–	202,201	1,880,965
– Indonesia	5,152	–	105,664	–	390,992	–	32,861	534,669
– Cambodia	2,918	–	–	–	22,649	–	–	25,567
– Laos	214,375	–	–	–	1,075	–	–	215,450
– Vietnam	101	–	–	–	17,594	–	88	17,783
– Philippines	125,817	–	–	–	20,712	–	904	147,433
– Myanmar	–	–	–	–	21,396	–	179	21,575
South Asia	29,675	118,358	548,951	–	454,381	1,622	323,193	1,476,180
East Asia	1,622,193	37,859	883,155	–	451,344	121,992	2,101,303	5,217,846
Middle East	4,188	–	93,758	–	7,135	–	103	105,184
Europe	77,848	33,171	1,090,867	–	85,809	110,232	365,752	1,763,679
North America	632,226	–	465,203	–	429,498	6,543	103	1,533,573
Others	200	–	–	–	7,256	–	–	7,456
	18,833,580	1,886,477	26,946,919	10,422,098	109,478,272	1,750,186	44,367,095	213,684,627

ˇ Excludes stage 1 expected credit losses amounting to RM3,395,000.

~ Excludes equity instruments amounting to RM5,294,000.

@ Excludes equity instruments amounting to RM637,457,000.

¥ Excludes stage 1 and stage 2 expected credit losses amounting to RM193,447,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM1,263,999,000 and positive fair value charges amounting to RM1,873,000.

* Other financial assets include other assets amounting to RM602,692,000 and derivative assets amounting to RM1,147,494,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(a) Loans, advances and financing

Loans, advances and financing are summarised as follows:

	Group 2017 RM'000	Bank 2017 RM'000
Neither past due nor impaired	147,249,125	102,517,808
Past due but not impaired	9,310,528	5,528,225
Impaired	3,567,788	2,784,470
Gross loans, advances and financing	160,127,441	110,830,503
Less: Individual impairment allowance	(761,692)	(493,112)
Collective impairment allowance	(1,064,286)	(807,074)
Net loans, advances and financing	158,301,463	109,530,317

(i) Loans, advances and financing neither past due nor impaired

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Group's and the Bank's internal credit grading system is as follows:

	Group 2017 RM'000	Bank 2017 RM'000
Good	110,311,139	76,744,472
Fair	25,593,008	20,160,166
No Rating	11,344,978	5,613,170
Neither past due nor impaired	147,249,125	102,517,808

Loans, advances and financing classified as non-rated mainly comprise loans/financing under the Standardised Approach for credit risk.

Notes to the Financial Statements
for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(a) Loans, advances and financing (continued)

(ii) Loans, advances and financing past due but not impaired

Analysis of ageing of loans, advances and financing that are past due but not impaired is as follows:

	Group 2017 RM'000	**Bank 2017 RM'000**
Past due up to 30 days	7,249,735	3,976,563
Past due 31 to 60 days	1,429,888	1,049,200
Past due 61 to 90 days	630,905	502,462
Past due but not impaired	9,310,528	5,528,225

(iii) Impaired loans, advances and financing

Loans, advances and financing that are individually determined to be impaired are as follows:

	Group 2017 RM'000	**Bank 2017 RM'000**
Impaired loans	3,567,788	2,784,470

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, reinsurance assets, other financial assets and derivative assets of the Group are summarised as follows:

Group 2017	Short term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL^ RM'000	Financial investments AFS* RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Reinsurance assets RM'000	Other financial assets RM'000	Derivative assets RM'000
Neither past due nor impaired	10,003,841	1,610,236	24,700,374	19,045,382	1,544,698	377,685	752,908	1,826,667
Past due but not impaired	–	–	–	–	54,896	–	426	–
Impaired	–	–	509,737	182,435	31,882	–	27,005	–
	10,003,841	1,610,236	25,210,111	19,227,817	1,631,476	377,685	780,339	1,826,667
Less: Impairment losses	–	–	(488,366)	(181,874)	(31,882)	–	(25,314)	–
	10,003,841	1,610,236	24,721,745	19,045,943	1,599,594	377,685	755,025	1,826,667

The amount of short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, reinsurance assets, other financial assets and derivative assets that are past due but not impaired is not material.

^ Excludes equity instrument amounting to RM954,033,000.

* Excludes equity instrument and perpetual notes/sukuk amounting to RM1,094,871,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other financial assets and derivative assets of the Bank are summarised as follows:

Bank 2017	Short term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS* RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
Neither past due nor impaired	17,963,051	828,006	20,605,205	14,495,644	584,214	1,834,676
Impaired	–	–	504,480	103,030	–	–
	17,963,051	828,006	21,109,685	14,598,674	584,214	1,834,676
Less: Impairment losses	–	–	(483,107)	(102,469)	–	–
	17,963,051	828,006	20,626,578	14,496,205	584,214	1,834,676

The amount of short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other financial assets and derivative assets that are past due but not impaired is not material.

* Excludes equity instrument and perpetual notes/sukuk amounting to RM801,077,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(c) Analysis of short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, reinsurance assets, other financial assets and derivative assets of the Group that are neither past due nor impaired by rating agency definition are as follows:

Group 2017	Short term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL^ RM'000	Financial investments AFS* RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Reinsurance assets RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	506,366	639,588	9,604,179	1,926,549	–	–	236,954	1,242,982
A1 to A3	644,657	91,148	1,701,590	19,215	–	–	17,602	374,346
Baa1 to Baa3	–	47,442	2,536,823	13,166	–	–	–	780
P1 to P3	2,645,688	–	–	–	–	–	2,599	88
Non-rated including:	6,207,130	832,058	10,857,782	17,086,452	1,544,698	377,685	495,753	208,471
– Bank Negara Malaysia	3,884,719	–	–	–	–	–	–	8,634
– Malaysian Government Securities	–	263,769	1,377,296	1,303,583	–	–	–	–
– Malaysian Government Investment Issues	–	548,495	3,310,678	5,296,360	–	–	–	–
– Malaysia Treasury Bills	–	16,559	–	–	–	–	–	–
– Corporate bond/sukuk	–	3,235	5,849,040	6,550,697	–	–	–	–
– Khazanah bonds	–	–	50,785	105,673	–	–	–	–
– Negotiable instruments of deposits	–	–	121,436	3,697,694	–	–	–	–
– Others	2,322,411	–	148,547	132,445	1,544,698	377,685	495,753	199,837
	10,003,841	1,610,236	24,700,374	19,045,382	1,544,698	377,685	752,908	1,826,667

^ Excludes equity instrument amounting to RM954,033,000.

* Excludes equity instrument and perpetual notes/sukuk amounting to RM1,094,871,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(c) Analysis of short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows (continued):

Bank 2017	Short term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS* RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	10,393,046	29,895	8,366,224	1,784,716	236,954	1,254,831
A1 to A3	541,940	91,148	1,681,238	–	17,602	374,346
Baa1 to Baa3	–	47,441	2,536,823	13,166	–	780
P1 to P3	1,670,985	–	–	–	–	–
Non-rated including:	5,357,080	659,522	8,020,920	12,697,762	329,658	204,719
– Bank Negara Malaysia	2,483,870	–	–	–	–	8,634
– Malaysian Government Securities	–	263,769	1,238,204	1,303,583	–	–
– Malaysian Government Investment Issues	–	375,959	2,521,291	4,503,836	–	–
– Malaysian Treasury Bills	–	16,559	–	–	–	–
– Corporate bond/sukuk	–	3,235	4,061,607	4,835,967	–	–
– Khazanah bonds	–	–	–	72,312	–	–
– Negotiable instruments of deposits	–	–	121,436	1,859,604	–	–
– Others	2,873,210	–	78,382	122,460	329,658	196,085
	17,963,051	828,006	20,605,205	14,495,644	584,214	1,834,676

* Excludes equity instrument and perpetual notes/sukuk amounting to RM801,077,000.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(d) Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitments and contingencies, are set out below:

Group 2017	Short term funds and deposits and placements with banks and other financial institutions[+] RM'000	Financial assets at FVTPL[~] RM'000	Financial investments AFS[@] RM'000	Financial investments HTM RM'000	Loans, advances and financing[#] RM'000	Clients' and brokers' balances[^] RM'000	Reinsurance assets RM'000	Other financial assets[*] RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	665,136	221,271	4,596,643	–	–	116	1,128,143	6,611,309
Mining and quarrying	–	–	–	15,189	1,104,009	–	–	443	1,374,661	2,494,302
Manufacturing	–	–	50,279	101,718	8,382,839	–	–	16,808	7,596,468	16,148,112
Electricity, gas and water	–	22	1,937,734	1,285,454	2,281,809	–	–	22,106	868,800	6,395,925
Construction	–	–	630,898	313,950	10,970,485	–	–	64	8,614,723	20,530,120
Real estate	–	5,006	1,420,309	429,877	3,785,629	–	–	–	16,804	5,657,625
Purchase of landed property	–	–	–	–	12,785,567	–	–	–	1,619	12,787,186
Wholesale & retail trade and restaurant & hotel	–	–	20,205	657,021	11,431,764	–	–	22,196	6,123,514	18,254,700
Transport, storage and communication	–	22,005	2,561,159	1,555,563	8,262,971	–	–	91,477	886,852	13,380,027
Finance, insurance and business services	5,060,055	663,607	7,431,227	6,064,009	13,629,058	–	377,685	1,680,321	9,449,255	44,355,217
Government and government agencies	4,587,341	919,596	9,007,993	8,136,287	5,811,969	–	–	5,359	–	28,468,545
Purchase of securities	–	–	–	–	1,408,136	1,602,925	–	–	–	3,011,061
Purchase of transport vehicles	–	–	–	–	33	–	–	–	–	33
Consumption credit	–	–	–	–	1,648,773	–	–	–	4,717,839	6,366,612
Others	356,445	–	996,805	265,604	73,266,064	–	–	742,802	13,726,790	89,354,510
	10,003,841	1,610,236	24,721,745	19,045,943	159,365,749	1,602,925	377,685	2,581,692	54,505,468	273,815,284

~ Excludes equity instrument amounting to RM954,033,000.

@ Excludes equity instrument and perpetual notes/sukuk amounting to RM1,094,871,000.

\# Excludes collective impairment allowance amounting to RM1,064,286,000.

^ Excludes collective impairment allowance of RM3,331,000.

* Other financial assets include other assets amounting to RM755,025,000 and derivative assets amounting to RM1,826,667,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(v) Credit quality (continued)

(d) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

Bank 2017	Short term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans, advances and financing# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	484,748	101,046	2,893,062	116	814,898	4,293,870
Mining and quarrying	–	–	–	15,189	272,349	17	1,636,336	1,923,891
Manufacturing	–	–	50,279	560	6,661,530	16,312	6,836,338	13,565,019
Electricity, gas and water	–	–	1,489,301	565,377	1,891,639	22,106	765,620	4,734,043
Construction	–	–	444,982	313,950	7,771,045	64	6,072,186	14,602,227
Real estate	–	5,006	1,289,144	303,590	2,425,535	–	–	4,023,275
Purchase of landed property	–	–	–	–	1,110,922	–	–	1,110,922
Wholesale & retail trade and restaurant & hotel	–	–	10,189	524,255	9,449,317	19,657	5,720,692	15,724,110
Transport, storage and communication	–	22,005	1,836,184	1,443,496	3,118,229	91,477	686,316	7,197,707
Finance, insurance and business services	15,479,181	144,709	6,345,685	3,911,708	9,408,553	1,918,125	8,283,790	45,491,751
Government and government agencies	2,483,870	656,286	7,679,259	7,060,264	1,947,074	–	–	19,826,753
Consumption credit	–	–	–	–	1,629,870	–	4,049,504	5,679,374
Others	–	–	996,807	256,770	61,758,266	351,016	8,825,072	72,187,931
	17,963,051	828,006	20,626,578	14,496,205	110,337,391	2,418,890	43,690,752	210,360,873

@ Excludes equity instrument and perpetual notes/sukuk amounting to RM801,077,000.

Excludes collective impairment allowance amounting to RM807,074,000.

* Other financial assets include other assets amounting to RM584,214,000 and derivative assets amounting to RM1,834,676,000.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(vi) Write-off policy

The Group and the Bank write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's and the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Group and the Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's and the Bank's enforcement activities will be written back as bad debts recovered in the income statements.

The contractual amount outstanding on loans, advances and financing and securities portfolio that were written off during the financial year ended 31 December 2018, and are still subject to enforcement activities was RM234.7 million for the Group and RM151.4 million for the Bank.

(vii) Modification of contractual cash flows

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within impairment in the income statements with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group and the Bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification.

Although loans and financing may be modified for non-credit reasons, a significant increase in credit risk may occur. The Group and the Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from stage 3 or stage 2 to stage 1. This is only the case for assets which have been monitored for consecutive six months observation period or more.

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (continued)

(viii) Sensitivity analysis

The Group and the Bank have performed ECL sensitivity assessment on loans, advances and financing based on the changes in key variables, such as GDP growth, unemployment rates, inflation and house prices, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the ECL of the Group and the Bank.

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

(a) Retail

		Group		Bank	
	Changes	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Private Consumption	+/-50bps	**(9,256)**	**9,325**	**(8,195)**	**8,296**
Unemployment rates	+/-10bps	**14,995**	**(14,695)**	**13,138**	**(12,892)**
Inflation	+/-5bps	**987**	**(1,146)**	**919**	**(1,049)**

(b) Non-retail

		Group		Bank	
	Changes	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Private Consumption	+/-50bps	**(6,846)**	**5,917**	**(4,504)**	**3,884**
KLIBOR-3M	+/-25bps	**20,468**	**(20,876)**	**12,863**	**(13,049)**

Retail comprises substantially household sector as disclosed in Note 9(e) under loans, advances and financing by economic sector.

Non-retail comprises other than household sector as disclosed in Note 9(e) under loans, advances and financing by economic sector.

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting Financial Assets and Financial Liabilities

The Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table shows the impact of netting arrangement on:

(i) all financial assets and liabilities that are reported on the balance sheet; and

(ii) all derivative financial instruments and reverse repurchase agreement and borrowing arrangements (offsetting arrangement and financial collateral) but do not qualify for netting.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

Group	Gross amounts of recognised financial assets/ financial liabilities RM'000	Related amounts not set off in the statements of financial position		Net amount RM'000
		Financial instruments RM'000	Financial collateral RM'000	
2018				
Financial assets				
Derivative assets	**1,131,057**	**(223,579)**	**(315,171)**	**592,307**
Financial liabilities				
Derivative liabilities	**1,116,701**	**(223,579)**	**(90,569)**	**802,553**
2017				
Financial assets				
Derivative assets	1,826,667	(782,096)	(497,380)	547,191
Financial liabilities				
Derivative liabilities	2,551,504	(782,096)	(192,028)	1,577,380

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting Financial Assets and Financial Liabilities (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements (continued):

Bank	Gross amounts of recognised financial assets/ financial liabilities RM'000	Related amounts not set off in the statements of financial position: Financial instruments RM'000	Related amounts not set off in the statements of financial position: Financial collateral RM'000	Net amount RM'000
2018				
Financial assets				
Derivative assets	**1,147,494**	**(223,579)**	**(315,171)**	**608,744**
Financial liabilities				
Derivative liabilities	**1,120,287**	**(223,579)**	**(90,569)**	**806,139**
2017				
Financial assets				
Derivative assets	1,834,676	(782,096)	(497,380)	555,200
Financial liabilities				
Derivative liabilities	2,513,980	(782,096)	(192,028)	1,539,856

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments

The Group and the Bank analyses its financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Financial assets at FVTPL:	415,344	2,932,295	453,010	3,800,649
– Money market instruments	–	1,608,238	–	1,608,238
– Quoted securities	415,344	1,704	3,590	420,638
– Unquoted securities	–	1,322,353	449,420	1,771,773
Financial assets at FVOCI:	2,596	31,807,311	767,926	32,577,833
– Money market instruments	–	12,530,290	–	12,530,290
– Quoted securities	2,596	–	–	2,596
– Unquoted securities	–	19,277,021	767,926	20,044,947
Derivative assets	–	1,131,057	–	1,131,057
	417,940	35,870,663	1,220,936	37,509,539
Financial liabilities				
Derivative liabilities	4,246	1,112,455	–	1,116,701

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy (continued):

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial assets at FVTPL:	597,409	1,607,001	359,859	2,564,269
– Money market instruments	–	849,021	–	849,021
– Quoted securities	597,409	–	–	597,409
– Unquoted securities	–	757,980	359,859	1,117,839
Financial investments AFS:	59,995	24,617,611	1,139,010	25,816,616
– Money market instruments	–	8,410,681	–	8,410,681
– Quoted securities	59,995	–	4,072	64,067
– Unquoted securities	–	16,206,930	1,134,938	17,341,868
Derivative assets	–	1,826,667	–	1,826,667
	657,404	28,051,279	1,498,869	30,207,552
Financial liabilities				
Derivative liabilities	45,947	2,505,557	–	2,551,504

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy (continued):

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Financial assets at FVTPL:	3,179	1,872,857	15,735	1,891,771
– Money market instruments	–	1,334,012	–	1,334,012
– Quoted securities	3,179	1,704	3,590	8,473
– Unquoted securities	–	537,141	12,145	549,286
Financial assets at FVOCI:	–	26,945,899	638,477	27,584,376
– Money market instruments	–	10,988,111	–	10,988,111
– Unquoted securities	–	15,957,788	638,477	16,596,265
Derivative assets	–	1,147,494	–	1,147,494
	3,179	29,966,250	654,212	30,623,641
Financial liabilities				
Derivative liabilities	–	1,120,287	–	1,120,287
2017				
Financial assets				
Financial assets at FVTPL:	3,235	824,771	–	828,006
– Money market instruments	–	676,485	–	676,485
– Quoted securities	3,235	–	–	3,235
– Unquoted securities	–	148,286	–	148,286
Financial investments AFS:	–	20,612,705	814,950	21,427,655
– Money market instruments	–	7,331,457	–	7,331,457
– Quoted securities	–	–	4,072	4,072
– Unquoted securities	–	13,281,248	810,878	14,092,126
Derivative assets	–	1,834,676	–	1,834,676
	3,235	23,272,152	814,950	24,090,337
Financial liabilities				
Derivative liabilities	–	2,513,980	–	2,513,980

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

There were no transfers between Level 1 and 2 during the financial year.

(i) Valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include quoted securities and unit trusts.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group and the Bank then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio-economic reasons, non-transferable and non-tradable perpetual notes/sukuk, impaired securities and unquoted corporate loan stocks. Fair values for shares held for socio-economic reasons are based on the net tangible assets of the affected companies. For unquoted corporate loan stocks, discounted cash flow analysis has been performed to determine the recoverability of the instruments.

(ii) Reconciliation of fair value measurements in Level 3

The following represents the changes in Level 3 instruments for the Group and the Bank:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Financial assets at FVTPL				
Balance as at the beginning of financial year				
– As previously reported	**359,859**	167,901	**–**	16,390
– Effect of adoption of MFRS 9	**15,525**	–	**15,525**	–
– As restated	**375,384**	167,901	**15,525**	16,390
Total gain/(loss) recognised in income statements	**32,393**	(27,067)	**(1,654)**	(16,390)
Purchases	**46,359**	243,928	**1,851**	–
Settlements	**(10,660)**	(10,685)	**–**	–
Exchange differences	**9,534**	(14,218)	**13**	–
Balance as at the end of the financial year	**453,010**	359,859	**15,735**	–

Notes to the Financial Statements

for the financial year ended 31 December 2018

53 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

(ii) Reconciliation of fair value measurements in Level 3 (continued)

The following represents the changes in Level 3 instruments for the Group and the Bank (continued):

	Group	Bank
	2018	**2018**
	RM'000	**RM'000**
Financial assets at FVOCI		
Balance as at the beginning of financial year		
– As previously reported	**–**	**–**
– Effect of adoption of MFRS 9	**1,123,485**	**799,425**
– As restated	**1,123,485**	**799,425**
Total loss recognised in other comprehensive income	**(42,161)**	**(55,589)**
Transfer to level 2	**(102,750)**	**(102,750)**
Purchases	**5,839**	**(236)**
Settlements/disposal	**(218,407)**	**(2,373)**
Exchange differences	**1,920**	**–**
Balance as at the end of the financial year	**767,926**	**638,477**

	Group	Bank
	2017	**2017**
	RM'000	**RM'000**
Financial investments AFS		
Balance as at the beginning of financial year	1,138,800	806,979
Total gains recognised in other comprehensive income	13,906	61
Purchases	16,001	10,793
Settlements	(17,087)	(67)
Impairment losses	(2,551)	(2,551)
Exchange differences	(10,059)	(265)
Balance as at the end of the financial year	1,139,010	814,950

Notes to the Financial Statements
for the financial year ended 31 December 2018

54 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(a) The fair value of each financial assets and liabilities presented on the statements of financial position of the Group and the Bank approximates the carrying amount as at the reporting date, except for the following:

	Group		Bank	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
2018				
Financial assets				
Deposits and placements with banks and other financial institutions	**898,120**	**898,120**	**10,990,797**	**11,001,568**
Financial investments at amortised cost	**14,090,275**	**14,112,695**	**10,228,651**	**10,241,083**
Loans, advances and financing	**165,629,774**	**165,800,768**	**108,216,146**	**108,385,579**
Financial liabilities				
Deposits from customers	**178,856,330**	**178,997,455**	**127,145,222**	**127,219,471**
Deposits and placements of banks and other financial institutions	**18,290,894**	**18,269,845**	**17,526,185**	**17,510,932**
Recourse obligation on loans sold to Cagamas	**5,266,116**	**5,198,325**	**2,995,877**	**2,840,705**
Borrowings	**1,182,885**	**1,182,885**	**981,849**	**981,849**
Senior debt securities	**3,323,664**	**3,258,030**	**3,323,664**	**3,258,030**
Hybrid Tier-1 Capital Securities	**603,221**	**611,370**	**608,235**	**616,384**
Subordinated obligations	**3,748,655**	**3,772,036**	**2,589,066**	**2,608,750**
2017				
Financial assets				
Deposits and placements with banks and other financial institutions	1,161,601	1,146,786	11,275,105	11,203,148
Financial investments at amortised cost	19,045,943	18,473,067	14,496,205	13,925,578
Loans, advances and financing	158,301,463	158,437,389	109,530,317	109,660,800
Financial liabilities				
Deposits from customers	166,865,031	166,964,599	121,237,748	121,265,537
Deposits and placements of banks and other financial institutions	21,079,737	20,403,617	22,031,408	21,359,190
Recourse obligation on loans old to Cagamas	1,729,606	1,630,200	1,729,606	1,630,200
Borrowings	1,153,719	1,153,719	978,068	978,068
Senior debt securities	3,252,581	3,223,972	3,252,581	3,223,972
Hybrid Tier-1 Capital Securities	602,666	625,097	607,678	630,109
Subordinated obligations	3,748,294	3,758,813	2,588,638	2,598,841

54 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) The following table analyses within the fair value hierarchy of the Group's assets and liabilities not measured at fair value but for which fair value is disclosed:

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Deposits and placements with banks and other financial institutions	**–**	**898,120**	**–**	**898,120**
Financial investments at amortised cost	**–**	**10,322,328**	**3,790,367**	**14,112,695**
Loans, advances and financing	**–**	**165,800,768**	**–**	**165,800,768**
Financial liabilities				
Deposits from customers	**–**	**178,997,455**	**–**	**178,997,455**
Deposits and placements of banks and other financial institutions	**–**	**18,269,845**	**–**	**18,269,845**
Recourse obligation on loans sold to Cagamas	**–**	**5,198,325**	**–**	**5,198,325**
Borrowings	**–**	**1,182,885**	**–**	**1,182,885**
Senior debt securities	**–**	**3,258,030**	**–**	**3,258,030**
Hybrid Tier-1 Capital Securities	**–**	**611,370**	**–**	**611,370**
Subordinated obligations	**–**	**3,772,036**	**–**	**3,772,036**
2017				
Financial assets				
Deposits and placements with banks and other financial institutions	–	1,146,786	–	1,146,786
Financial investments HTM	–	15,439,592	3,033,475	18,473,067
Loans, advances and financing	–	158,437,389	–	158,437,389
Financial liabilities				
Deposits from customers	–	166,964,599	–	166,964,599
Deposits and placements of banks and other financial institutions	–	20,403,617	–	20,403,617
Recourse obligation on loans sold to Cagamas	–	1,630,200	–	1,630,200
Borrowings	–	1,153,719	–	1,153,719
Senior debt securities	–	3,223,972	–	3,223,972
Hybrid Tier-1 Capital Securities	–	625,097	–	625,097
Subordinated obligations	–	3,758,813	–	3,758,813

Notes to the Financial Statements

for the financial year ended 31 December 2018

54 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Deposits and placements with banks and other financial institutions	**–**	**11,001,568**	**–**	**11,001,568**
Financial investments at amortised cost	**–**	**8,087,276**	**2,153,807**	**10,241,083**
Loans, advances and financing	**–**	**108,385,579**	**–**	**108,385,579**
Financial liabilities				
Deposits from customers	**–**	**127,219,471**	**–**	**127,219,471**
Deposits and placements of banks and other financial institutions	**–**	**17,510,932**	**–**	**17,510,932**
Recourse obligation on loans sold to Cagamas	**–**	**2,840,705**	**–**	**2,840,705**
Borrowings	**–**	**981,849**	**–**	**981,849**
Senior debt securities	**–**	**3,258,030**	**–**	**3,258,030**
Hybrid Tier-1 Capital Securities	**–**	**616,384**	**–**	**616,384**
Subordinated obligations	**–**	**2,608,750**	**–**	**2,608,750**
2017				
Financial assets				
Deposits and placements with banks and other financial institutions	–	11,203,148	–	11,203,148
Financial investments HTM	–	12,192,149	1,733,429	13,925,578
Loans, advances and financing	–	109,660,800	–	109,660,800
Financial liabilities				
Deposits from customers	–	121,265,537	–	121,265,537
Deposits and placements of banks and other financial institutions	–	21,359,190	–	21,359,190
Recourse obligation on loans sold to Cagamas	–	1,630,200	–	1,630,200
Borrowings	–	978,068	–	978,068
Senior debt securities	–	3,223,972	–	3,223,972
Hybrid Tier-1 Capital Securities	–	630,109	–	630,109
Subordinated obligations	–	2,598,841	–	2,598,841

54 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(c) The fair values are based on the following methodologies and assumptions:

(i) Cash and short term funds and deposits and placements with financial institutions

For cash and short term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

(iii) Financial assets FVTPL, financial assets at FVOCI, financial investments at amortised cost and financial investments HTM and AFS

The estimated fair value for financial assets FVTPL, financial assets at FVOCI, financial investments at amortised cost and financial investments HTM and AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the date of statements of financial position.

(iv) Loans, advances and financing

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired loans are represented by their carrying value, net of impairment allowance.

(v) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in ‘other assets and liabilities’ are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

(vi) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Notes to the Financial Statements
for the financial year ended 31 December 2018

54 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(c) The fair values are based on the following methodologies and assumptions (continued):

(vii) Deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

(viii) Recourse obligation on loans sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

(ix) Borrowings

For floating rate borrowings, the carrying value is generally a reasonable estimate of fair value.

The estimated fair values of other borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

(x) Senior debt securities

The estimated fair value of senior debt securities is generally based on quoted and observable market prices at the date of statements of financial position.

(xi) Hybrid Tier-1 Capital Securities

The estimated fair value of Hybrid Tier-1 Capital Securities is generally based on quoted and observable market prices at the date of statements of financial position.

(xii) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statements of financial position.

(xiii) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(xiv) Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Bank would receive to sell or pay to transfer the contracts at the date of statements of financial position.

55 CHANGE IN ACCOUNTING POLICIES

(1) Adoption of MFRS 9 'Financial Instruments'

The Group and the Bank have adopted MFRS 9 'Financial Instruments', issued by the MASB with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current year.

MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'. Consequently, the amendments to MFRS 7 disclosures have only been applied to the current financial year, and comparative year's disclosures have not been restated as shown in Note 53.

The adoption of MFRS 9 has resulted in changes in the Group and the Bank's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Group and the Bank:

(a) Classification and measurement of financial assets

From 1 January 2018, the Group and the Bank have applied MFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ('FVOCI')
- Fair value through profit or loss ('FVTPL')

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and interest. All other financial assets are classified and measured at FVTPL.

Upon adoption of MFRS 9, the following is noted:

(i) The majority of the Group's and Bank's debt instruments that were classified as HTM and measured at amortised cost meet the condition for classification as amortised cost under MFRS 9, except for:

- the reclassification of certain debt instruments to FVOCI arising from changes in the Group and Bank's business model from 'hold to collect the contractual cash flows' to "hold to collect the contractual cash flows and sell', amounted to RM2,108,721,000 for the Group and the Bank. The difference between the fair value and the amortised cost, net of tax effects, of RM20,023,000 (net gains) for the Group and the Bank was recognised to FVOCI reserve on 1 January 2018.
- the reclassification of debt instrument, which contain a contingent provision which may reduce the amount of principal payable if certain key performance indicators are met by the issuer, and due to this proviso, failed to meet the SPPI's requirements for amortised cost classification under MFRS 9, to FVTPL, amounted to RM15,484,000 and RM5,104,000 for the Group and the Bank respectively. The difference between the fair value and the amortised cost, net of tax effects, of RM264,000 (net gains) and RM30,000 (net loss) for the Group and the Bank respectively, was recognised to retained profits on 1 January 2018.

Notes to the Financial Statements
for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(1) Adoption of MFRS 9 'Financial Instruments' (continued)

(a) Classification and measurement of financial assets (continued)

(ii) The majority of the Group's and Bank's debts and equity instruments that were classified as financial instruments AFS satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets. However, the Group and Bank hold a portfolio of debt instruments in AFS, which contain contractual clauses on non-viability and loss absorption in the event of default, and due to these clauses, failed to meet the SPPI requirements for FVOCI classification under MFRS 9. As a result, these instruments, which amounted to RM971,996,000 for the Group and RM915,533,000 for the Bank, were classified as FVTPL and its cumulative gains arising from changes in fair value, net of tax of RM4,095,000 (net gains) and RM4,255,000 (net gains) for the Group and the Bank respectively, have been transferred from equity to retained profits on 1 January 2018.

(b) Classification and measurement of financial liabilities

The Group and the Bank's financial liabilities continue to be measured at amortised cost.

There is no impact on the Group and the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group and the Bank do not have any such liabilities as at the balance sheet date.

(c) Hedge accounting

The Group and the Bank have elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

(d) Impairment of financial assets

As a result of the changes in basis of determining the level of allowances for credit losses as explained under the accounting policies, the total ECL allowances computed under MFRS 9 is higher by RM1,472,481,000 (net of tax) and RM1,106,140,000 (net of tax) for the Group and the Bank respectively, than the total allowance for impairment on financial assets under MFRS 139.

The financial effects of the adoption of MFRS 9 are presented in Note 55(3).

(2) BNM's Revised Policy Documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions

With effect from 1 January 2018, the Bank and its domestic banking subsidiaries must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures, in accordance with the revised policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued by BNM.

The financial effects of the adoption of the revised policy are presented in Note 55(3).

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Group and the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows:

Group	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Carrying amount post classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
ASSETS								
Cash and short term funds	Loans and receivables	Amortised cost	9,951,878	–	–	9,951,878	(40,732)	**9,911,146**
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised cost	1,161,601	–	–	1,161,601	(25)	**1,161,576**
Financial assets at FVTPL	FVTPL	FVTPL	2,564,269	987,480	436	3,552,185	–	**3,552,185**
Financial investments AFS	Financial investments AFS	NA	25,816,616	(25,816,616)	–	–	–	**–**
Financial investments HTM	Financial investments HTM	NA	19,045,943	(19,045,943)	–	–	–	**–**
Financial assets at FVOCI:								
– Debt instruments	NA	FVOCI	–	26,308,353	26,345	26,334,698	–	**26,334,698**
– Equity instruments	NA	FVOCI	–	644,988	–	644,988	–	**644,988**
Financial investments at amortised cost	NA	Amortised cost	–	16,921,738	–	16,921,738	(208,904)	**16,712,834**
Loans, advances and financing	Loans and receivables	Amortised cost	158,301,463	–	(98,310)	158,203,153	(1,416,599)	**156,786,554**
Clients' and brokers' balances	Loans and receivables	Amortised cost	1,599,594	–	–	1,599,594	(111,057)	**1,488,537**
Reinsurance assets	NA	NA	482,760	–	–	482,760	–	**482,760**
Other assets	Loans and receivables	Amortised cost	1,106,048	–	–	1,106,048	(15,099)	**1,090,949**
Derivative assets	FVTPL	FVTPL	1,826,667	–	(22,553)	1,804,114	–	**1,804,114**
Statutory deposits	Loans and receivables	Amortised cost	4,001,002	–	–	4,001,002	–	**4,001,002**
Tax recoverable	NA	NA	115,874	(1,344)	29,224	143,754	360,130	**503,884**
Deferred tax assets	NA	NA	36,072	–	1,978	38,050	–	**38,050**
Investments in associates and joint ventures	NA	NA	48,253	–	–	48,253	–	**48,253**
Property, plant and equipment	NA	NA	1,013,710	–	–	1,013,710	–	**1,013,710**
Goodwill	NA	NA	2,649,307	–	–	2,649,307	–	**2,649,307**
Intangible assets	NA	NA	488,869	–	–	488,869	–	**488,869**
TOTAL ASSETS			230,209,926	(1,344)	(62,880)	230,145,702	(1,432,286)	**228,713,416**

Notes to the Financial Statements

for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Group and the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows (continued):

Group	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Carrying amount post classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
LIABILITIES								
Deposits from customers	Amortised cost	Amortised cost	166,865,031	–	–	166,865,031	–	**166,865,031**
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost	21,079,737	–	–	21,079,737	–	**21,079,737**
Obligations on securities sold under repurchase agreements	Amortised cost	Amortised cost	604,163	–	–	604,163	–	**604,163**
Bills and acceptances payable	Amortised cost	Amortised cost	302,152	–	–	302,152	–	**302,152**
Clients' and brokers' balances	Amortised cost	Amortised cost	1,369,395	–	–	1,369,395	–	**1,369,395**
General insurance contract liabilities	NA	NA	998,310	–	–	998,310	–	**998,310**
Other liabilities and provisions	Amortised cost	Amortised cost	2,715,111	–	–	2,715,111	–	**2,715,111**
Derivative liabilities	FVTPL	FVTPL	2,551,504	–	–	2,551,504	–	**2,551,504**
Recourse obligation on loans sold to Cagamas	Amortised cost	Amortised cost	1,729,606	–	–	1,729,606	–	**1,729,606**
Tax liabilities	NA	NA	33,531	–	–	33,531	(15,623)	**17,908**
Deferred tax liabilities	NA	NA	19,698	(1,344)	6,475	24,829	(2,876)	**21,953**
Borrowings	Amortised cost	Amortised cost	1,153,719	–	–	1,153,719	–	**1,153,719**
Senior debt securities	Amortised cost	Amortised cost	3,252,581	–	–	3,252,581	–	**3,252,581**
Hybrid Tier-1 Capital Securities	Amortised cost	Amortised cost	602,666	–	–	602,666	–	**602,666**
Subordinated obligations	Amortised cost	Amortised cost	3,748,294	–	–	3,748,294	–	**3,748,294**
TOTAL LIABILITIES			207,025,498	(1,344)	6,475	207,030,629	(18,499)	**207,012,130**
EQUITY								
Share capital			6,994,103	–	–	6,994,103	–	**6,994,103**
Reserves			16,155,611	–	(69,381)	16,086,230	(1,413,304)	**14,672,926**
Equity attributable to holders of the Bank			23,149,714	–	(69,381)	23,080,333	(1,413,304)	**21,667,029**
NCI			34,714	–	26	34,740	(483)	**34,257**
TOTAL EQUITY			23,184,428	–	(69,355)	23,115,073	(1,413,787)	**21,701,286**
TOTAL LIABILITIES AND EQUITY			230,209,926	(1,344)	(62,880)	230,145,702	(1,432,286)	**228,713,416**

Notes to the Financial Statements

for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Group and the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows (continued):

Bank	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Carrying amount post classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
ASSETS								
Cash and short term funds	Loans and receivables	Amortised cost	7,614,663	–	–	7,614,663	(44,456)	**7,570,207**
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised cost	11,275,105	–	–	11,275,105	–	**11,275,105**
Financial assets at FVTPL	FVTPL	FVTPL	828,006	920,636	(39)	1,748,603	–	**1,748,603**
Financial investments AFS	Financial investments AFS	NA	21,427,655	(21,427,655)	–	–	–	**–**
Financial investments HTM	Financial investments HTM	NA	14,496,205	(14,496,205)	–	–	–	**–**
Financial assets at FVOCI:			–					
– Debt instruments	NA	FVOCI	–	22,011,278	26,344	22,037,622	–	**22,037,622**
– Equity instruments	NA	FVOCI	–	609,566	–	609,566	–	**609,566**
Financial investments at amortised cost	NA	Amortised cost	–	12,382,380	–	12,382,380	(205,015)	**12,177,365**
Loans, advances and financing	Loans and receivables	Amortised cost	109,530,317	–	(56,094)	109,474,223	(1,152,371)	**108,321,852**
Other assets	Loans and receivables	Amortised cost	906,895	–	–	906,895	–	**906,895**
Derivative assets	FVTPL	FVTPL	1,834,676	–	(23,416)	1,811,260	–	**1,811,260**
Statutory deposits	Loans and receivables	Amortised cost	2,538,107	–	–	2,538,107	–	**2,538,107**
Tax recoverable	NA	NA	58,871	(1,344)	19,092	76,619	348,867	**425,486**
Investments in subsidiaries	NA	NA	4,495,837	–	–	4,495,837	–	**4,495,837**
Property, plant and equipment	NA	NA	756,434	–	–	756,434	–	**756,434**
Goodwill	NA	NA	1,651,542	–	–	1,651,542	–	**1,651,542**
Intangible assets	NA	NA	415,690	–	–	415,690	–	**415,690**
TOTAL ASSETS			177,830,003	(1,344)	(34,113)	177,794,546	(1,052,975)	**176,741,571**

Notes to the Financial Statements

for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Group and the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows (continued):

Bank	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Carrying amount post classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
LIABILITIES								
Deposits from customers	Amortised cost	Amortised cost	121,237,748	–	–	121,237,748	–	**121,237,748**
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost	22,031,408	–	–	22,031,408	–	**22,031,408**
Obligations on securities sold under repurchase agreements	Amortised cost	Amortised cost	1,587,979	–	–	1,587,979	–	**1,587,979**
Bills and acceptances payable	Amortised cost	Amortised cost	286,751	–	–	286,751	–	**286,751**
Other liabilities and provisions	Amortised cost	Amortised cost	1,573,546	–	–	1,573,546	–	**1,573,546**
Derivative liabilities	FVTPL	FVTPL	2,513,980	–	–	2,513,980	–	**2,513,980**
Recourse obligation on loans sold to Cagamas	Amortised cost	Amortised cost	1,729,606	–	–	1,729,606	–	**1,729,606**
Deferred tax liabilities	NA	NA	14,467	(1,344)	6,321	19,444	–	**19,444**
Borrowings	Amortised cost	Amortised cost	978,068	–	–	978,068	–	**978,068**
Senior debt securities	Amortised cost	Amortised cost	3,252,581	–	–	3,252,581	–	**3,252,581**
Hybrid Tier-1 Capital Securities	Amortised cost	Amortised cost	607,678	–	–	607,678	–	**607,678**
Subordinated obligations	Amortised cost	Amortised cost	2,588,638	–	–	2,588,638	–	**2,588,638**
TOTAL LIABILITIES			158,402,450	(1,344)	6,321	158,407,427	–	**158,407,427**
EQUITY								
Share capital			6,994,103	–	–	6,994,103	–	**6,994,103**
Reserves			12,433,450	–	(40,434)	12,393,016	(1,052,975)	**11,340,041**
TOTAL EQUITY			19,427,553	–	(40,434)	19,387,119	(1,052,975)	**18,334,144**
TOTAL LIABILITIES AND EQUITY			177,830,003	(1,344)	(34,113)	177,794,546	(1,052,975)	**176,741,571**

Notes to the Financial Statements
for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

The following table shows the effects on FVOCI/AFS reserves, regulatory reserves and retained profits as at 31 December 2017 and 1 January 2018:

	Group	Bank
	RM'000	RM'000
AFS/FVOCI reserves		
Closing balance under MFRS 139 as at 31 December 2017	275,937	271,524
Reclassification of investment securities (debt) from HTM to FVOCI	20,023	20,023
Reclassification of investment securities (debt and equity) from AFS to FVTPL	(4,095)	(4,255)
Recognition of expected credit losses	58,922	53,165
	74,850	68,933
Opening balance under MFRS 9 as at 1 January 2018	350,787	340,457
Regulatory reserves		
Closing balance under MFRS 139 as at 31 December 2017	1,797,903	1,484,902
Transfer to retained profits	(998,409)	(762,323)
Opening balance under MFRS 9 as at 1 January 2018	799,494	722,579
Retained profits		
Closing balance under MFRS 139 as at 31 December 2017	13,429,174	10,333,461
Effect of reclassification and remeasurement of financial assets, net of tax	(85,312)	(56,202)
Effect of ECL adjustments, net of tax	(1,472,481)	(1,106,140)
Transfer from regulatory reserves	998,409	762,323
	(559,384)	(400,019)
Opening balance under MFRS 9 as at 1 January 2018	12,869,790	9,933,442

Notes to the Financial Statements

for the financial year ended 31 December 2018

55 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

The following table reconciles the prior year's closing impairment allowance measured in accordance with MFRS 139 incurred loss model to the new impairment allowance measured in accordance with MFRS 9 ECL as at 1 January 2018:

	MFRS 139 Allowance as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 Allowance as at 1 January 2018 RM'000
Group				
Cash and short term funds	–	–	40,732	**40,732**
Deposits and placements with banks and other financial institutions	–	–	25	**25**
Financial assets at FVOCI/FVOCI reserves	–	–	58,922	**58,922**
Financial investments HTM/Financial investments at amortised cost	181,874	(38,334)	208,904	**352,444**
Loans, advances and financing	1,825,978	–	1,416,599	**3,242,577**
Clients' and brokers' balances	31,882	–	111,057	**142,939**
Other assets	23,709	–	15,099	**38,808**
	2,063,443	(38,334)	1,851,338	**3,876,447**
Bank				
Cash and short term funds	–	–	44,456	**44,456**
Financial assets at FVOCI/FVOCI reserves	–	–	53,165	**53,165**
Financial investments HTM/Financial investments at amortised cost	102,469	(38,334)	205,015	**269,150**
Loans, advances and financing	1,300,186	–	1,152,371	**2,452,557**
	1,402,655	(38,334)	1,455,007	**2,819,328**

56 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

(1) Proposed acquisition by RHB Investment Bank of the remaining 51% equity interest in Vietnam Securities Corporation ('VSEC') ('Proposed Acquisition')

RHB Investment Bank, a wholly-owned subsidiary of the Bank, has on 9 February 2018 entered into a conditional share purchase agreement ('CSPA') with Chu Thi Phuong Dung, Truong Lan Anh and Viet Quoc Insurance Broker Joint Stock Company for the acquisition of the remaining 51% equity interest in VSEC, comprising 6,885,000 existing common shares of VND10,000 each in VSEC for a purchase consideration of VND121,629,915,000 (equivalent to approximately USD5.365 million or RM21.285 million) to be satisfied wholly in cash.

The Proposed Acquisition is amongst others, subject to the approvals of BNM and State Securities Commission of Vietnam ('Vietnam SSC'). The Bank and RHB Investment Bank have submitted applications to BNM for the approval of the Proposed Acquisition and VSEC has also submitted an application to Vietnam SSC for the approval of the Proposed Acquisition and the conversion of the status of VSEC from a joint stock company into a single-member limited liability company ('Conversion').

Vietnam SSC and BNM had on 17 October 2018 and 12 December 2018 respectively granted their approval to VSEC for the Proposed Acquisition.

RHB Investment Bank, Chu Thi Phuong Dung, Truong Lan Anh and Viet Quoc Insurance Broker Joint Stock Company had on 27 December 2018, by way of an exchange of letter, mutually agreed to extend the period to satisfy or waive the conditions precedent of the CSPA to 28 February 2019.

On 29 January 2019, Vietnam SCC had granted its approval for the Conversion and the issuance of an amended license as a single member limited liability company. VSEC has since become a wholly-owned subsidiary of RHB Investment Bank effective 19 February 2019.

57 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

(I) Proposed reorganisation of the equity, economic and fixed income and currencies research operations of RHB Research Institute Sdn Bhd ('RHBRI') into RHB Investment Bank and the Bank

RHB Investment Bank is proposing to undertake a reorganisation of its equity and economic research operations, currently housed under RHBRI, into a division within RHB Investment Bank, while their fixed income and currencies research function is to be absorbed by the Bank, subject to all applicable approvals (`Proposed Reorganisation'). RHBRI is currently a wholly-owned subsidiary of RHB Investment Bank.

The Proposed Reorganisation is intended to streamline the research operations under RHB Investment Bank and the Bank, and to rationalise the costs of maintaining a separate licensed entity for research.

The Proposed Reorganisation is subject to the approval of Securities Commission Malaysia and conditional upon the successful application for a variation in RHB Investment Bank's Capital Market Services Licence (`CMSL') to include the regulated activity of Investment Advice.

Notes to the Financial Statements
for the financial year ended 31 December 2018

57 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONTINUED)

(I) Proposed reorganisation of the equity, economic and fixed income and currencies research operations of RHB Research Institute Sdn Bhd ('RHBRI') into RHB Investment Bank and the Bank (continued)

The Proposed Reorganisation will be effected via an Asset Purchase Agreement (`APA') to be entered into between RHB Investment Bank and RHBRI and will include a novation of contracts entered into by RHBRI and a transfer of employees. Similarly, the Bank and RHBRI propose to enter into an APA in relation to the transfer of assets.

Upon completion of the Proposed Reorganisation, the equity and economic research operations under RHBRI will become a division of RHB Investment Bank, whereas the fixed income and currencies research function will be absorbed by the Bank. RHBRI will thereafter surrender its CMSL and be wound up.

The Proposed Reorganisation will not have any effect on the issued capital and substantial shareholders' shareholdings of the Bank, and it is not expected to have any material effect on the earnings and net assets of the Bank and its subsidiaries for the financial year ending 31 December 2019.

(2) Issuance of USD300 million senior unsecured notes in nominal value ('Senior Notes') under the USD5 billion (or its equivalent in other currencies) Euro Medium Term Note Programme ('EMTN Programme') by the Bank

On 19 February 2019, the Bank completed its third issuance of USD300 million Senior Notes under the USD5 billion EMTN Programme which was established on 23 September 2014.

The Senior Notes rated A3 by Moody's Investors Service Inc and listed on the Singapore Exchange Securities Trading Limited and Labuan International Financial Exchange Inc, were priced at 5-year US Treasury +128 bps or a yield of 3.766% and will pay a coupon of 3.766% per annum. The Senior Notes have a tenure of 5 years from the issuance date and will mature on 19 February 2024.

The net proceeds from the issuance of the Senior Notes will be utilised by the Bank for general working capital purposes.

STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

We, Tan Sri Azlan Zainol and Dato' Khairussaleh Ramli, being two of the Directors of RHB Bank Berhad state that, in the opinion of the Directors, the financial statements set out on pages 7 to 215 are drawn up so as to give a true and fair view of the financial position of the Group and the Bank as at 31 December 2018 and financial performance of the Group and of the Bank for the financial year ended on 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 27 February 2019.

TAN SRI AZLAN ZAINOL
CHAIRMAN

DATO' KHAIRUSSALEH RAMLI
GROUP MANAGING DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION

pursuant to Section 251(1) of the Companies Act 2016

I, Syed Ahmad Taufik Albar, the Officer primarily responsible for the financial management of RHB Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 7 to 215 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

SYED AHMAD TAUFIK ALBAR
(MIA Membership No: 29842)

Subscribed and solemnly declared by the abovenamed Syed Ahmad Taufik Albar at Kuala Lumpur in Malaysia on 27 February 2019.

COMMISSIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of RHB Bank Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Bank Berhad ('the Bank') and its subsidiaries ('the Group') give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 215.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ('By-Laws') and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of Group and the Bank. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operate.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Bank for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Allowances for credit losses of loans, advances and financing for the Group and the Bank

Refer to:
- Accounting policy 4(d);
- Critical accounting estimate (2);
- Notes 9, 41, 53(e)(viii) of the financial statements; and
- Note 55 - disclosures on financial impact on adoption of MFRS 9.

The Group and the Bank have adopted MFRS 9 - 'Financial Instruments', with a date of transition of 1 January 2018. MFRS 9 introduces an expected credit loss ('ECL') impairment model, which requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

This is an area of focus as the Directors make significant judgements in applying the accounting requirements for measuring ECL, such as:
- Choosing the appropriate collective assessment models used to calculate ECL. The models are inherently complex and judgement is applied in determining the appropriate construct of model;
- Identification of loans, advances and financing that have experienced a significant increase in credit risk;
- Assumptions used in the ECL models such as expected future cash flows, forward-looking macroeconomic factors and datasets to be used as inputs to the models.

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<u>**Individual assessment**</u>

We evaluated the design and operating effectiveness of the controls over the process of identification of loans, advances and financing that have experienced significant increase in credit risk, process of identification of loss event and the process of forecasting future cash flows to determine the ECL amount.

In addition, we tested a sample of loans, advances and financing selected based on risk, and formed our judgement whether the Directors' assessment on either the occurrence of loss event or significant increase in credit risk was appropriate. Where a loss event or significant increase in credit risk had been identified, we checked the ECL calculated for exposures assessed on an individual basis. We checked the forecasts of future cash flows prepared by the Directors to calculate the amount of ECL. We assessed the reasonableness of the assumptions underlying the forecasted cash flows. In addition, we compared the collateral values assumed in the cash flow forecasts to external valuation reports.

<u>**Collective assessment**</u>

To determine the appropriateness of the MFRS 9 collective assessment ECL models implemented by the Group and the Bank, we have:
- Assessed the methodologies inherent within the collective assessment ECL models applied against the requirements of MFRS 9;
- Tested the design and operating effectiveness of the controls relating to:
  - Governance and model development, including model build, model approval and model validation;
  - Data used to determine the allowances for credit losses; and
  - Calculation, review and approval of the ECL calculation
- Assessed and tested the significant modelling assumptions;
- Assessed and considered reasonableness of forward-looking forecasts assumptions; and
- Checked the accuracy of data and calculation of the ECL amount, on a sample basis;

Based on the above procedures, the results of our evaluation of the allowances for credit losses for loans, advances and financing are consistent with the Directors' assessment.

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INDEPENDENT AUDITORS' REPORT

to the members of RHB Bank Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill for the Group Refer to accounting policy 7, critical accounting estimate (3) and Note 19 of the financial statements. As required by MFRS 136, an annual impairment assessment is performed on the goodwill balance of RM2,649.3 million. The recoverable amount of each cash generating unit ('CGU') with allocated goodwill is determined based on the higher of value in use ('VIU') and fair value less cost of disposal. The Directors have determined VIU to be the recoverable amount of these CGU. We focused on this area due to the size of the carrying amount of the goodwill, which represented 1.09% of total assets and because the Directors' make significant estimates about the future cash flows of these CGU and the discount rate applied to each CGU.	We tested the Directors' impairment assessment of goodwill by performing the following procedures: – agreed the cash flow projection of each CGU to the approved budget by the Directors for the respective CGU. We also compared previous projection to actual result of each CGU to assess the reasonableness of assumptions used in the cash flow projections; – assessed reasonableness of discount rates which reflects the specific risk relating to each CGU based on external information; – evaluated the reasonableness of growth rates beyond three years ('Terminal Growth Rates') based on historical results, economic outlook and industry forecasts; – performed sensitivity analysis over Terminal Growth Rates and discount rates used in the determination of the VIU cash flows to assess the potential impact of a reasonable possible change to any of these assumptions on the recoverable amount of each CGU. Based on the evidence obtained we found that the assumptions used by the Directors in the impairment assessment of goodwill were consistent with our understanding.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditors' report, and the 2018 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

to the members of RHB Bank Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Bank for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 16 to the financial statements.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2019

BASEL II PILLAR 3 DISCLOSURES

AS AT 31 DECEMBER 2018

List of Tables

Statement by Group Managing Director

In accordance with the requirements of Bank Negara Malaysia's Guideline on Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Bank Berhad for the year ended 31 December 2018 are accurate and complete.

DATO' KHAIRUSSALEH BIN RAMLI
Group Managing Director

Basel II Pillar 3 Disclosures

as at 31 December 2018

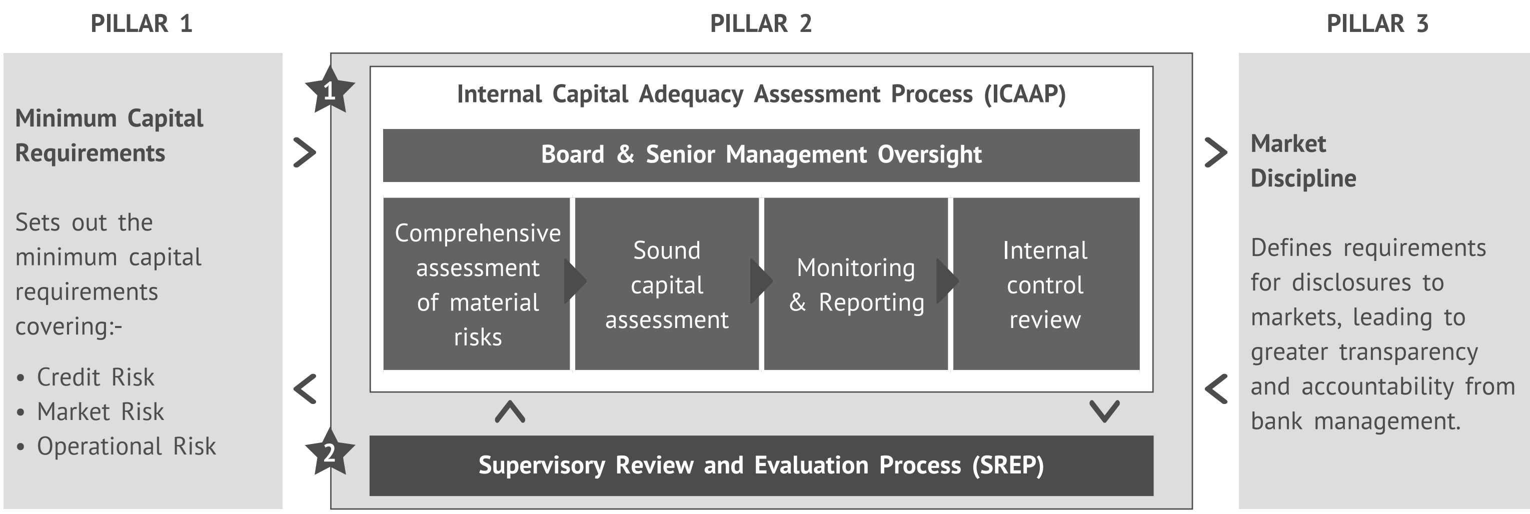
1.0 INTRODUCTION

This document describes RHB Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM's Pillar 3 Guidelines).

BNM's guidelines on Capital Adequacy Framework (Basel II – Risk-Weighted Assets) and the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) provide and specify the approaches for quantifying the risk-weighted assets for credit risk, market risk and operational risk.

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. It is designed to be a catalyst for more advanced risk management techniques, enterprise-wide culture of risk management and improved corporate governance, and public disclosure.

The Basel II approach based on the three pillars can be diagrammatically depicted as below:



Pillar 1 provides guidelines for calculation of risk-weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.

For the purpose of complying with regulatory requirements under Basel II Pillar 1, the approaches adopted by the respective banking entities within the Group are as follows:

Entity	Credit Risk	Market Risk	Operational Risk
RHB Bank Berhad	Internal Ratings-Based Approach	Standardised Approach	Basic Indicator Approach
RHB Islamic Bank Berhad*			
RHB Investment Bank Berhad	Standardised Approach		

* On 31 May 2018, BNM granted approval for RHB Islamic Bank Berhad to adopt IRB approach for Credit Risk for its regulatory capital reporting and to submit the actual reporting based on IRB approach beginning with its position as at 30 September 2018.

1.0 INTRODUCTION (CONTINUED)

Pillar 2 comprises two components as follows:

- Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process, and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
- Placing obligations on the supervisory authority to evaluate how well banking institutions are assessing their capital needs relative to their risks and to intervene, where appropriate.

Pillar 3 covers external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

Basis of Disclosure

The annual Pillar 3 disclosure report is published in accordance with BNM's Pillar 3 Guidelines. This disclosure report has been verified and approved internally in line with the RHB Banking Group: Basel II Pillar 3 Disclosure Policy.

Comparative Information

This document covers the qualitative and quantitative information for financial year ended 31 December 2018 with comparative quantitative information of the preceding financial year 2017.

Frequency of Disclosure

The qualitative disclosures contained herein are updated on an annual basis and more frequently, if there are significant changes in the interim reporting period. The disclosures on capital adequacy and structure are made on a quarterly basis and all other quantitative disclosures are made on a semi-annual basis in accordance to the Group's reporting period.

Medium and Location of Disclosure

The Group's Pillar 3 disclosure report is made available under the Investor Relations section of the Group's website at www.rhbgroup.com as a separate report in the Group's Annual Report 2018, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Bank Berhad's information is presented on a consolidated basis, ie RHB Bank Berhad with its overseas operations and its subsidiaries, and is referred to as "RHB Bank Group" or "the Group".

In accordance with the accounting standards for financial reporting, all subsidiaries of the RHB Bank Group are fully consolidated from the date it obtains control until the date such control ceases. Refer to Note 16 to the financial statements for list of consolidated entities.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, except where the types of investment to be deducted from eligible capital as guided by BNM's Guideline on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) (hereinafter collectively referred to as the 'Capital Adequacy Framework'). In 2018, changes in BNM's policy documents/frameworks were as follows:

a. The Capital Adequacy Framework was updated and reissued by BNM on 2 February 2018 for application with effect from 1 January 2018. The main updates in the said framework are:

    - Revised definition of General Provision and Specific Provision arising from the implementation of Malaysian Financial Reporting Standards 'Financial Instruments' (MFRS) 9.
    - Definition of General Provision and its recognition in Tier II Capital.
    - Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustment.

b. BNM's Revised Policy Document on Financial Reporting issued on 2 February 2018 requires the Bank and its domestic banking subsidiary companies must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures with effect from 1 January 2018.

    In the previous year, the Banking Group has maintained in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of impairment allowance.

    The impact to the capital adequacy ratios of the Group and of the Bank are disclosed in Note 52 to the Financial Statements as at 31 December 2018.

The Group adopted MFRS 9 effective 1 January 2018.

As permitted by the transitional provisions of MFRS 9, comparative figures are not restated for first time adoption of the Standards. Refer to Note 55 to the Financial Statements for more details.

RHB Bank Group offers Islamic banking financial services via its wholly-owned subsidiary company, RHB Islamic Bank Berhad (RHB Islamic Bank).

The transfer of funds or regulatory capital within RHB Bank Group is subject to shareholders' and regulatory approval.

During the financial year 2018, there were no capital deficiencies in RHB Bank Berhad or any of its subsidiaries.

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to manage capital prudently and to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Group's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Group to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Group aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting regulatory requirements.

With a comprehensive capital management, the Group aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements.

The management of capital involves capital strategy, capital planning and capital allocation/structuring/optimisation.

- **Capital Strategy**

  Capital strategy includes the determination of target capital under both normal and stressed market conditions and considers the business risk and strategic objectives, external credit ratings, and capital adequacy requirements. A comprehensive capital adequacy assessment is conducted at least annually to ensure that the target capital level is appropriate.

- **Capital Planning**

  Based on strategic direction and regulatory requirements, the Group formulates a comprehensive and forward looking capital plan to:

  (i) support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate and aligned with the Group's risk appetite;

  (ii) provide adequate capital for business growth, changes in asset mix or to cover unanticipated losses.

  The capital plan describes the actions required to raise capital in a timely manner in both normal and stressed conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Group maintains adequate capital on a forward-looking basis. The Group also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the Group Capital and Risk Committee (GCRC) for endorsement, and submitted to Board Risk Committee (BRC) and the Board for approval.

- **Capital Allocation/Structuring/Optimisation**

  The Group determines the amount of capital allocated to each entity and business line based on capital performance target and available funding. An efficient allocation of capital drives returns for the Group's shareholders.

  Capital structuring affects the Group through its impact on cash flow and cost of capital. The Group adopts capital structuring that maximises value and minimises overall cost of capital. In order to achieve optimum capital structure, the Group determines the levels, mix and structure of internal and regulatory capital in line with its current and planned levels of business activities, risk appetite and desired level of capital adequacy.

  The Group optimises its capital by integrating risk-based capital into strategy and aligning this with performance measurement.

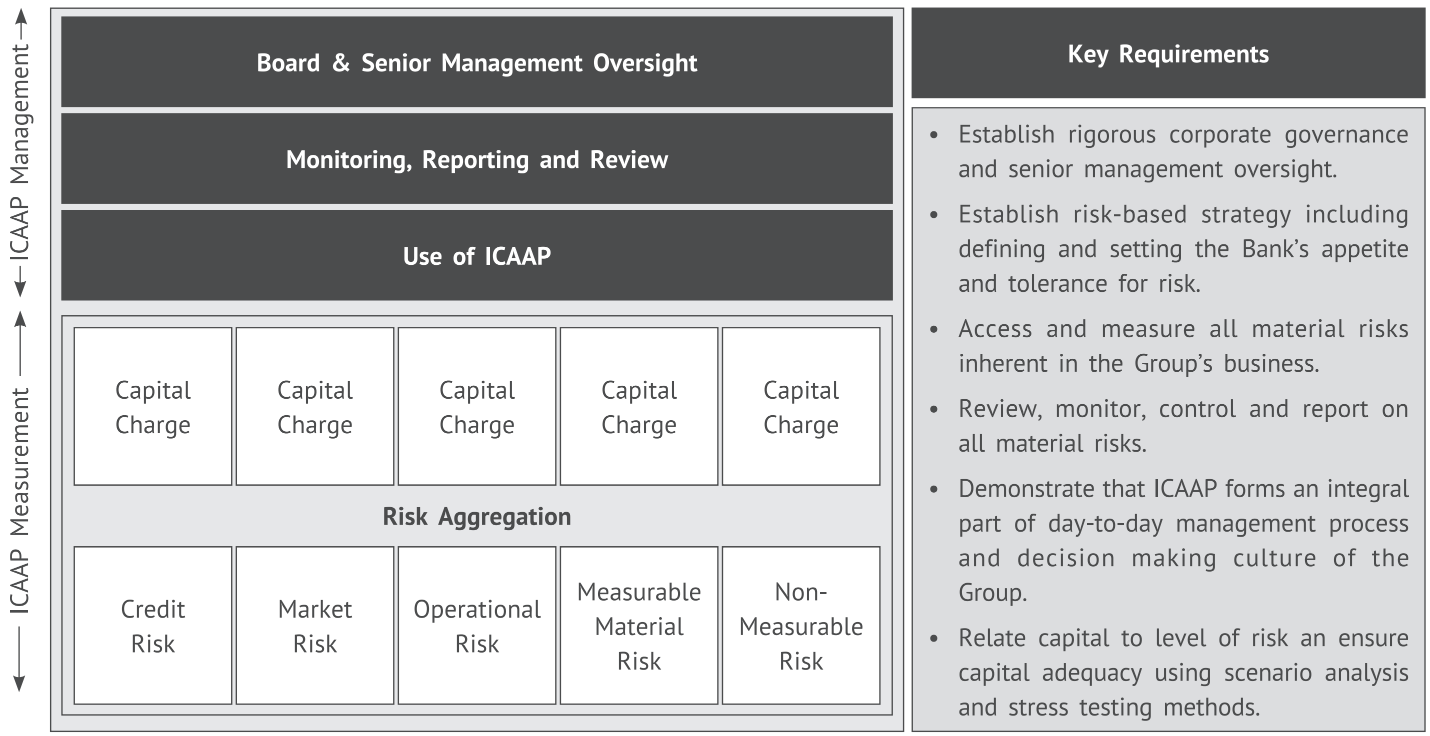
  The Group also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM's Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) and Capital Adequacy Framework for Islamic Banks (CAFIB) – Internal Capital Adequacy Assessment Process (Pillar 2), the Group has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Group's risk profile, and strategies are in place to maintain appropriate capital levels.

The ICAAP Framework developed and adopted across the Group summarises the key ICAAP requirements into two functional categories, namely; ICAAP Measurement and ICAAP Management as depicted below:



3.2 Basel III Implementation

The implementation of Basel III for capital components by BNM in Malaysia has commenced with effect from 1 January 2013. Under the Basel III rules, banking institutions are required to strengthen the quality of their capital by maintaining higher minimum capital requirements and holding capital buffers namely the capital conservation buffer and the countercyclical capital buffer. However, the requirements are subject to a series of transitional arrangements with a gradual phase-in commencing 2013.

The Group has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the phased-in arrangement for Malaysian banking institutions to comply with the minimum requirement of 60% in 2015 with incremental of 10% each year thereafter until 100% from 1 January 2019 onwards. The Group continues to report on Net Stable Funding Ratio (NSFR) under observation. The result produced during the observation period facilitates the Group's strategy in managing the appropriate balance sheet structure for achieving optimal NSFR.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. Banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Common Equity Tier I (CET I) Capital Ratio	4.5%
Tier I Capital Ratio	6.0%
Total Capital Ratio	8.0%

In addition, the Group is required to maintain additional capital buffers in the form of CET I capital above the minimum CET I, Tier I and total capital ratios set out above. The capital buffers shall comprise of capital conservation buffer (CCB) and countercyclical capital buffer (CCyB). The CCB is intended to enable the banking system to withstand future periods of stress and will be phased-in as follows:

Calendar Year	CCB
2018	1.875%
2019 onwards	2.500%

CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Group has credit exposures. This buffer is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Application of CCyB above the minimum capital ratios is in the range of 0.0% to 2.5%. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios (continued)

The capital ratios of RHB Bank Berhad on consolidated basis (RHB Bank Group), RHB Bank Berhad on global basis (RHB Bank), RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017 are:

Table 1: Capital Adequacy Ratios

	RHB Bank Group		RHB Bank		RHB Islamic Bank		RHB Investment Bank	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**Restated 2017**
Before proposed dividends								
Common Equity Tier I Capital Ratio	**15.920%**	14.228%	**13.818%**	13.523%	**13.222%**	10.376%	**21.323%**	30.891%
Tier I Capital Ratio	**16.128%**	14.485%	**14.077%**	13.833%	**13.222%**	10.376%	**21.323%**	30.891%
Total Capital Ratio	**19.213%**	17.500%	**17.398%**	16.266%	**16.476%**	14.134%	**40.757%**	35.774%
After proposed dividends								
Common Equity Tier I Capital Ratio	**15.488%**	13.907%	**13.254%**	13.108%	**13.222%**	10.376%	**21.323%**	30.891%
Tier I Capital Ratio	**15.696%**	14.164%	**13.514%**	13.418%	**13.222%**	10.376%	**21.323%**	30.891%
Total Capital Ratio	**18.780%**	17.179%	**16.835%**	15.851%	**16.476%**	14.134%	**40.757%**	35.774%

The capital ratios are above the minimum level required by BNM.

3.4 Minimum Capital Requirements and Risk-Weighted Assets (RWA)

The following table shows the breakdown of RWA by risk types as at 31 December 2018 and 31 December 2017:

Table 2: Risk-Weighted Assets (RWA) by Risk Types

	RHB Bank Group		RHB Bank		RHB Islamic Bank		RHB Investment Bank	
Risk Types	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**Restated 2017 RM'000**
Credit RWA	**104,908,738**	108,296,294	**81,202,389**	85,500,785	**25,943,117**	34,726,152	**612,585**	719,482
Credit RWA Absorbed by PSIA	**–**	–	**–**	–	**(5,874,587)**	(7,269,199)	**–**	–
Market RWA	**3,852,444**	4,960,017	**2,945,831**	2,872,562	**268,130**	240,688	**678,014**	610,542
Operational RWA	**11,762,542**	11,516,719	**8,394,333**	8,260,751	**1,679,551**	1,397,487	**807,022**	905,417
Additional RWA due to Capital Floor	**–**	–	**–**	–	**5,599,323**	–	**–**	–
Total RWA	**120,523,724**	124,773,030	**92,542,553**	96,634,098	**27,615,534**	29,095,128	**2,097,621**	2,235,441

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.4 Minimum Capital Requirements and Risk-Weighted Assets (RWA) (continued)

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2018 and 31 December 2017:

Table 3a: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2018

	RWA				Minimum Capital Requirements			
Risk Types	**RHB Bank Group RM'000**	**RHB Bank RM'000**	**RHB Islamic Bank RM'000**	**RHB Investment Bank RM'000**	**RHB Bank Group RM'000**	**RHB Bank RM'000**	**RHB Islamic Bank RM'000**	**RHB Investment Bank RM'000**
Credit Risk, of which	104,908,738	81,202,389	20,068,530	612,585	8,392,699	6,496,191	1,605,482	49,007
Under Foundation Internal Rating Based (F-IRB) Approach	*50,669,274*	*42,191,889*	*13,735,988*	–	*4,053,542*	*3,375,351*	*1,098,879*	–
Under Advanced Internal Rating Based (A-IRB) Approach	*28,309,813*	*21,133,710*	*7,206,853*	–	*2,264,785*	*1,690,697*	*576,548*	–
Under Standardised Approach	*25,929,651*	*17,876,790*	*5,000,276*	*612,585*	*2,074,372*	*1,430,143*	*400,022*	*49,007*
Absorbed by PSIA under F-IRB Approach	–	–	*(5,220,725)*	–	–	–	*(417,658)*	–
Absorbed by PSIA under Standardised Approach	–	–	*(653,862)*	–	–	–	*(52,309)*	–
Market Risk								
Under Standardised Approach	3,852,444	2,945,831	268,130	678,014	308,196	235,666	21,450	54,241
Operational Risk								
Under Basic Indicator Approach	11,762,542	8,394,333	1,679,551	807,022	941,003	671,547	134,364	64,562
Additional RWA due to Capital Floor	–	–	5,599,323	–	–	–	447,946	–
Total	120,523,724	92,542,553	27,615,534	2,097,621	9,641,898	7,403,404	2,209,242	167,810

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.4 Minimum Capital Requirements and Risk-Weighted Assets (RWA) (continued)

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2018 and 31 December 2017: (continued)

Table 3b: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2017

	RWA				Minimum Capital Requirements			
Risk Types	RHB Bank Group RM'000	RHB Bank RM'000	RHB Islamic Bank RM'000	RHB Investment Bank Restated RM'000	RHB Bank Group RM'000	RHB Bank RM'000	RHB Islamic Bank RM'000	RHB Investment Bank Restated RM'000
Credit Risk, of which	108,296,294	85,500,785	27,456,953	719,482	8,663,704	6,840,063	2,196,556	57,559
Under Foundation Internal Rating Based (F-IRB) Approach	*45,346,432*	*37,489,502*	-	-	*3,627,714*	*2,999,160*	-	-
Under Advanced Internal Rating Based (A-IRB) Approach	*30,985,108*	*25,224,217*	-	-	*2,478,809*	*2,017,938*	-	-
Under Standardised Approach	*31,964,754*	*22,787,066*	*34,726,152*	*719,482*	*2,557,181*	*1,822,965*	*2,778,092*	*57,559*
Absorbed by PSIA under Standardised Approach	-	-	*(7,269,199)*	-	-	-	*(581,536)*	-
Market Risk								
Under Standardised Approach	4,960,017	2,872,562	240,688	610,542	396,801	229,805	19,255	48,843
Operational Risk								
Under Basic Indicator Approach	11,516,719	8,260,751	1,397,487	905,417	921,338	660,860	111,799	72,433
Total	**124,773,030**	**96,634,098**	**29,095,128**	**2,235,441**	**9,981,843**	**7,730,728**	**2,327,610**	**178,835**

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

The Bank Group's Credit Risk-Weighted Assets (RWA) reduced predominantly due to the implementation of Retail SME model which replaced the existing model, but off-set by the asset growth.

Market RWA also observed reduction following the reclassification of Trading Book assets to Banking Book assets following the implementation of MFRS 9.

Basel II Pillar 3 Disclosures

as at 31 December 2018

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components). These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Group. Tier I capital consists primarily of ordinary share capital, retained profits, other reserves and hybrid Tier I capital securities. Tier II capital consists of subordinated obligations, surplus eligible provisions over expected losses and general provisions. Refer to Note 52 to the Financial Statements for the details of these capital instruments.

The following table represents the capital position of RHB Bank Group and RHB Bank as at 31 December 2018 and 31 December 2017:

Table 4: Capital Structure

	RHB Bank Group		**RHB Bank@**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Common Equity Tier I Capital/Tier I Capital				
Paid up ordinary share capital	**6,994,103**	6,994,103	**6,994,103**	6,994,103
Share premium	**–**	–	**–**	–
Retained profits	**14,791,837**	13,249,895	**12,116,174**	11,019,987
Other reserves	**722,541**	667,019	**499,913**	450,926
Fair value through other comprehensive income (FVOCI)/Available for sale (AFS) reserves	**319,844**	275,224	**299,322**	272,449
Less:				
Goodwill	**(2,633,383)**	(2,633,383)	**(1,651,542)**	(1,651,542)
Intangible assets (include associated deferred tax liabilities)	**(563,693)**	(447,837)	**(504,752)**	(390,769)
Deferred tax assets	**(100,192)**	(44,629)	**(55,305)**	(10,542)
55% of cumulative gains arising from change in value of FVOCI/AFS instruments	**(175,914)**	(151,373)	**(164,627)**	(149,847)
Investment in subsidiaries*	**(127,779)**	(120,542)	**(4,711,343)**	(3,436,416)
Other deductions#	**(39,524)**	(35,272)	**(34,675)**	(30,965)
Total Common Equity Tier I Capital	**19,187,840**	**17,753,205**	**12,787,268**	**13,067,384**
Hybrid Tier I Capital Securities**	**240,000**	300,000	**240,000**	300,000
Qualifying non-controlling interests recognised as Tier I Capital	**10,606**	20,207	**–**	–
Total Tier I Capital	**19,438,446**	**18,073,412**	**13,027,268**	**13,367,384**

4.0 CAPITAL STRUCTURE (CONTINUED)

Table 4: Capital Structure (continued)

	RHB Bank Group		RHB Bank@	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Tier II Capital				
Subordinated obligations subject to gradual phase out treatment***	**300,000**	300,000	**300,000**	300,000
Subordinated obligations meeting all relevant criteria	**2,249,272**	2,249,028	**2,249,272**	2,249,028
Qualifying capital instruments of a subsidiary issued to third parties+	**501,504**	385,523	**–**	–
Surplus eligible provisions over expected losses	**473,875**	457,989	**379,954**	376,282
Collective impairment allowances^ and regulatory reserves~	**–**	399,560	**–**	284,839
General provisions˅,~	**192,590**	–	**144,014**	–
Less:				
Investment in subsidiaries*	**–**	(30,135)	**–**	(859,104)
Total Tier II Capital	**3,717,241**	**3,761,965**	**3,073,240**	**2,351,045**
Total Capital	**23,155,687**	**21,835,377**	**16,100,508**	**15,718,429**

@ The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank and its wholly-owned offshore banking subsidiary, RHB Bank (L) Ltd.

* Investments in subsidiaries are subject to gradual deduction using the corresponding deduction approach under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

Pursuant to Basel II Market Risk Para 5.19 & 5.20 – Valuation Adjustments, the Capital Adequacy Framework (Basel II – Risk-Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments on its trading portfolio.

** Hybrid Tier I Capital Securities that are recognised as Tier I capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

*** Subordinated obligations that are recognised as Tier II capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

+ Qualifying subordinated sukuk that are recognised as Tier II capital instruments held by third parties as prescribed under paragraph 17.6 of the BNM's Guideline on Capital Adequacy Framework (Capital Components) which are issued by a fully consolidated subsidiary of the Bank.

^ Excludes collective impairment allowance attributable to loans, advances, and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

˅ Pursuant to BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS9 Financial Instruments and regulatory reserves, to the extent they are ascribed to non-credit impaired exposures, determined under standardised approach for credit risk.

~ Includes the qualifying regulatory reserves of the Group and Bank of RM61,723,000 (31 December 2017: RM268,407,000) and RM27,796,000 (31 December 2017: RM202,172,000) respectively.

5.0 RISK MANAGEMENT

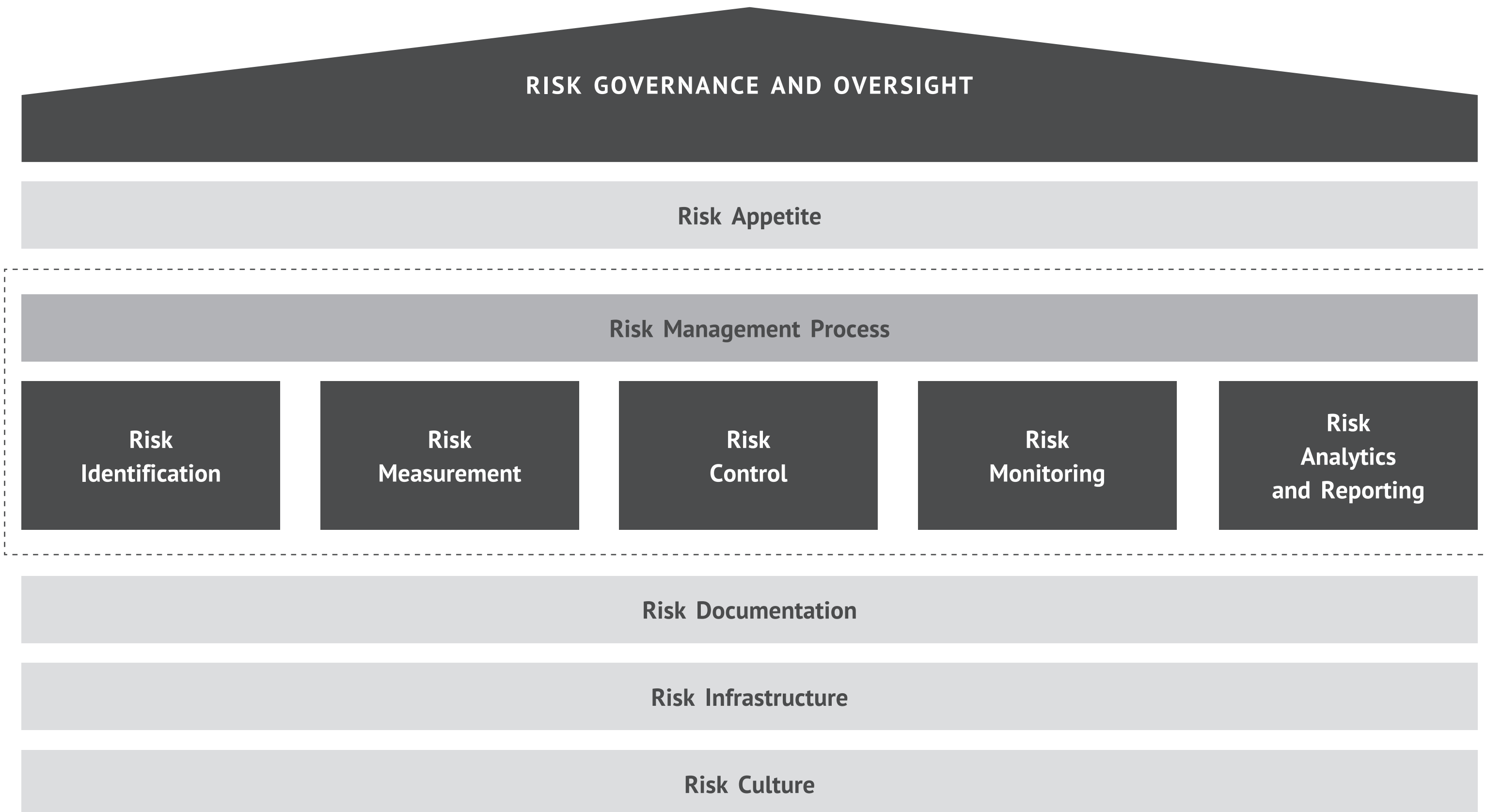
Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Group is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Group's operating environment.

The Group Risk Management Framework governs the management of risks in the Group, as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



The following sections describe some of these risk management content areas.

5.0 RISK MANAGEMENT (CONTINUED)

OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group:

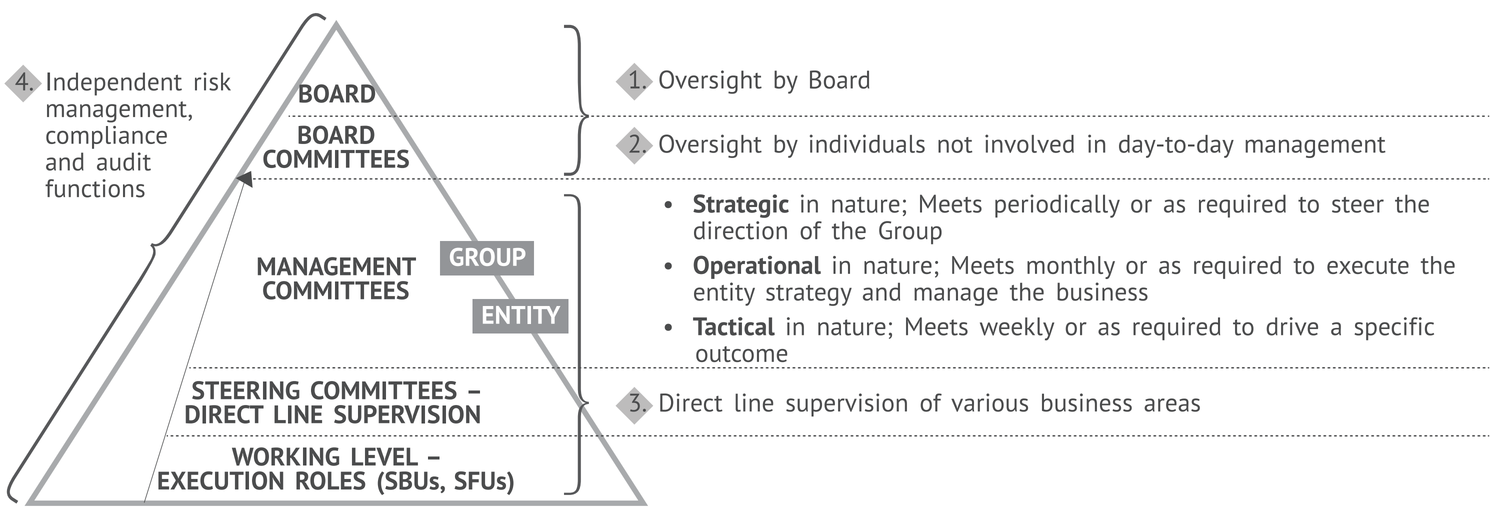
Principle 1: Risk Governance from the Boards of Directors of various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

RISK GOVERNANCE AND ORGANISATION

The Board of Directors (Board), through the BRC, GCRC and the Group Risk & Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. The Islamic Risk Management Committee (IRMC) is responsible for assisting the Board of RHB Islamic Bank on risk issues relevant and unique to RHB Islamic Bank.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising senior management of the Group and which reports to the BRC/IRMC and the Group Management Committee (GMC). The Group Asset and Liability Committee (Group ALCO) assists the BRC/IRMC to oversee market risk, liquidity risk and balance sheet management whilst the Investment Bank Risk Management Committee is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business. An overview of this governance framework at Group level is as below:



5.0 RISK MANAGEMENT (CONTINUED)

RISK CULTURE

Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The strategic business units (SBUs) and strategic functional units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE **Business/Functional Level**	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE **Group Risk Management & Group Compliance**	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE **Group Internal Audit**	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

RISK ENVIRONMENT AND INFRASTRUCTURE

Principle 3: Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.

Central Risk Management Function

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing a pro-active, balanced and risk-attuned culture within the Group; and
- Advising senior management and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Management Function (continued)

Group Risk & Credit Management consisting of Group Risk Management, Group Credit Management and Group Risk Operations provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard for the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible for include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting key risks and potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework, and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure they operate within established corporate policies and limits.

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

5.0 RISK MANAGEMENT (CONTINUED)

Risk and Control Environment (continued)

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested in the technology, including data management, to support the Group's risk management activities.

RISK APPETITE

Principle 4: Alignment of Risk Management to Business Strategies

The Group Risk Management Framework serves to align the Group's business strategy with its risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's lending/financing, trade finance and its funding, underwriting, investment and trading activities from both on and off balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.

GCC will direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Group's loan/asset book. GCC also acts as the body which, through the relevant Board committees, recommends to the respective Boards, on matters pertaining to credit risk (such as credit and underwriting evaluation/approval/procedure, and delegated lending/financing authorities).

The Group Investment Underwriting Committee (GIUC) deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.

The BCC's main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC and/or GIUC, (ii) overseeing the management of impaired and high risk accounts, and (iii) approving credit transactions to connected parties up to the defined threshold limits. BCC also endorses policy loans/financing and loans/financing required by BNM to be referred to the respective Boards for approval.

The Group Credit Management has the functional responsibility to ensure that internal processes and credit underwriting standards are adhered to before financing proposals are approved. All financing proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit manager and decided upon by the delegated lending/financing authority/relevant committees.

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities, are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending/financing between business and independent credit underwriters. Loans/financing which are beyond the delegated lending/financing authority limits will be escalated to the relevant committees for approval.

Within Group Risk Management, the Group Credit Risk Management has the functional responsibility for credit risk management, portfolio risk monitoring, risk reporting and development of credit policies and guidelines. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the senior management, Board committees and Board. These reports include various credit risk aspects such as portfolio quality, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

The Group's credit risk management framework is founded upon BNM's Policy on Credit Risk. The Group abides by its Group Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of the Group Credit Policy.

The Group's credit risk management process is documented in the Group Credit Guidelines (GCG) and the Group Credit Procedures Manual (GCPM) which set out the operational procedures and guidelines governing the credit processes within the Group.

The GCG and GCPM have been designed to ensure that:

- The process of credit initiation, administration, supervision and management of loans/financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies of the Group.

Lending/Financing to Corporate and Institutional Customers

Loans/financing to corporate and institutional customers are individually evaluated and risk-rated. Credit underwriters identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment activities, the Group is also exposed to credit risks from trading, derivative and debt securities activities. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

Lending/Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risk is managed on a portfolio basis. Such products include residential mortgages/home financing, credit cards, auto loans/financing, commercial property loans/financing, personal financing, Amanah Saham Bumiputera (ASB) financing and retail small and medium-sized enterprises (RSMEs). Credit is prudently assessed and extended leveraging on the product program, which clearly define the credit risk acceptance criteria, post approval review and credit risk control. Credit scorecard together with business rules are adopted to enable objective risk evaluation and consistent decisions, cost efficient processing, and behavioural score monitoring of expected portfolio performance.

Lending/Financing to Share Margin Financing

Loans/financing to share margin clients are based on credit/financing facilities made available to these clients for trading or redemption of securities that are listed in Bursa Malaysia Berhad in accordance with the Bursa Securities Rules.

For share margin financing, credit risk is mitigated through the establishment of appropriate approving authority structure/matrix for the extension of trading/credit limits. Within clearly defined guidelines approved by the Board and in line with applicable laws and regulations, credit risk management also encompasses the systematic credit assessment, close monitoring of limits, exposures and concentration risk to counterparties or issuer, through timely management reporting procedures.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (continued)

Credit Risk Measurement

Along with judgement and experience, risk measurement or quantification plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by financing type, the Group applies different credit risk measuring tools, so that the credit risk of each financing type is appropriately reflected. These measurement tools are developed for the material credit exposures, which fall under the IRB Approach.

The followings represent the dimensions considered in the credit risk measurement:

1.0 Probability of Default (PD)

For corporate/non-retail financing, the probability of default is measured from obligor (or customer) rating obtained from the risk rating system to determine obligor's level of default risk. The risk rating of each obligor is regularly reviewed to ensure that it actually reflects the debtor's/customer's updated default risk. For retail exposures/financing, the default risk is measured via different credit scoring or behavioural scoring model.

2.0 Loss Given Default (LGD)

For corporate financing, LGD is determined via the credit risk mitigation adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail financing, LGD is captured at respective segment (or pool) level.

3.0 Exposure at Default (EAD)

EAD is calculated from the current outstanding balance and availability of committed financing line. In this regard, the key factor is the Group's obligation related to the available financing line. For corporate financing, the EAD is measured at an individual obligor exposure as per BNM's Guideline on Capital Adequacy Framework (Basel II – Risk-Weighted Assets) and the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets). For retail financing, the principle of credit risk measurement is similar, but measured on a pooled basis, based on internal models.

6.3 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The management of the following off balance sheet exposures of the Group is in accordance to the credit risk management approach as set out under Section 6.2 of this document:

- Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that its customer cannot meet its obligations to third-parties. These exposures carry the same credit risk as loans/financing even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Group on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend financing, which includes the unutilised or undrawn portions of financing facilities;
- Unutilised credit card lines; and
- Credit equivalent amount of derivative financial instruments.

6.0 CREDIT RISK (CONTINUED)

6.3 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR) (continued)

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the entity with whom one has entered into a financial contract (the counterparty to the contract) will fail to fulfil their side of the contractual agreement (eg they default). Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as interest rate/profit rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending.

Derivative financial instruments are primarily entered into for hedging purposes. The Group (excluding RHB Islamic Bank) takes trading derivative positions, within pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Group monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties for next course of action.

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2018 compared with 31 December 2017, segregated by:

- the various types of asset classes, showing details of the exposures by type of approaches, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off balance sheet and counterparty credit risk;
- geographical distribution;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off Balance Sheet Exposures) as at 31 December 2018

RHB Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach (SA)				
On Balance Sheet Exposures				
Sovereigns & Central Banks	24,937,661	24,937,661	1,245,404	99,632
Public Sector Entities	10,484,752	10,484,752	341,890	27,351
Banks, Development Financial Institutions & MDBs	12,361,561	12,361,561	3,920,877	313,670
Insurance/Takaful Cos, Securities Firms & Fund Managers	713,073	713,073	641,102	51,288
Corporates	10,287,093	8,421,012	6,401,856	512,148
Regulatory Retail	7,491,910	6,695,052	5,879,342	470,347
Residential Mortgages	888,628	880,438	312,848	25,028
Higher Risk Assets	494,971	494,971	742,456	59,397
Other Assets	4,910,527	4,910,527	2,932,079	234,566
Securitisation Exposures	–	–	–	–
Equity Exposures	842,708	842,708	842,708	67,417
Defaulted Exposures	317,294	312,471	324,006	25,921
Total On Balance Sheet Exposures	**73,730,178**	**71,054,226**	**23,584,568**	**1,886,765**
Off Balance Sheet Exposures				
OTC Derivatives	2,125,433	1,830,186	505,752	40,460
Off balance sheet exposures other than OTC derivatives or credit derivatives	6,904,271	5,158,323	1,819,284	145,543
Defaulted Exposures	26,201	26,127	20,047	1,604
Total Off Balance Sheet Exposures	**9,055,905**	**7,014,636**	**2,345,083**	**187,607**
Total On and Off Balance Sheet Exposures under SA	**82,786,083**	**78,068,862**	**25,929,651**	**2,074,372**
Exposures under F-IRB Approach				
On Balance Sheet Exposures				
Corporates, of which	**72,748,563**	**72,748,563**	**42,572,917**	**3,405,833**
Corporate Exposures (excluding exposures with firm size adjustments)	*40,686,208*	*42,157,288*	*23,547,825*	*1,883,826*
Corporate Exposures (with firm size adjustments)	*25,931,911*	*25,931,911*	*15,497,128*	*1,239,770*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*1,906,227*	*1,595,001*	*1,417,628*	*113,410*
Income Producing Real Estate	*4,224,217*	*3,064,363*	*2,110,336*	*168,827*
Defaulted Exposures	2,237,979	2,237,979	84,309	6,745
Total On Balance Sheet Exposures	**74,986,542**	**74,986,542**	**42,657,226**	**3,412,578**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off Balance Sheet Exposures) as at 31 December 2018 (continued)

RHB Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under F-IRB Approach (continued)				
Off Balance Sheet Exposures				
OTC Derivatives	284,258	284,258	284,541	22,763
Off balance sheet exposures other than OTC derivatives or credit derivatives	8,457,342	8,457,342	4,859,435	388,755
Defaulted Exposures	7,100	7,100	–	–
Total Off Balance Sheet Exposures	8,748,700	8,748,700	5,143,976	411,518
Exposures under A-IRB Approach				
On Balance Sheet Exposures				
Retail, of which	89,444,481	89,444,481	23,838,357	1,907,069
Residential Mortgages Exposures	*43,810,063*	*43,810,063*	*9,992,986*	*799,439*
Qualifying Revolving Retail Exposures	*2,027,858*	*2,027,858*	*1,468,660*	*117,493*
Hire Purchase Exposures	*7,842,696*	*7,842,696*	*2,764,165*	*221,133*
Other Retail Exposures	*35,763,864*	*35,763,864*	*9,612,546*	*769,004*
Defaulted Exposures	1,665,700	1,665,700	348,284	27,863
Total On Balance Sheet Exposures	91,110,181	91,110,181	24,186,641	1,934,932
Off Balance Sheet Exposures				
OTC Derivatives	–	–	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	12,786,579	12,786,579	2,462,138	196,971
Defaulted Exposures	36,342	36,342	58,592	4,687
Total Off Balance Sheet Exposures	12,822,921	12,822,921	2,520,730	201,658
Total On and Off Balance Sheet Exposures before scaling factor under the IRB Approach	187,668,344	187,668,344	74,508,573	5,960,686
Total On and Off Balance Sheet Exposures after scaling factor, 1.06 under the IRB Approach			78,979,087	6,318,327
Total (Exposures under the SA Approach and Exposures under the IRB Approach)	270,454,427	265,737,206	104,908,738	8,392,699

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5b: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off Balance Sheet Exposures) as at 31 December 2017

RHB Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach (SA)				
On Balance Sheet Exposures				
Sovereigns & Central Banks	26,392,116	26,392,116	1,221,227	97,698
Public Sector Entities	8,284,169	8,284,169	406,245	32,500
Banks, Development Financial Institutions & MDBs	11,914,477	11,914,477	3,683,421	294,674
Insurance/Takaful Cos, Securities Firms & Fund Managers	641,748	639,406	600,285	48,023
Corporates	27,882,075	26,023,314	14,058,978	1,124,718
Regulatory Retail	7,078,996	6,127,334	5,296,694	423,736
Residential Mortgages	1,088,699	1,080,128	382,985	30,639
Higher Risk Assets	17,843	17,843	26,765	2,141
Other Assets	5,151,881	5,151,881	2,625,597	210,048
Securitisation Exposures	–	–	–	–
Equity Exposures	648,100	648,100	648,100	51,848
Defaulted Exposures	482,027	468,452	510,690	40,855
Total On Balance Sheet Exposures	**89,582,131**	**86,747,220**	**29,460,987**	**2,356,880**
Off Balance Sheet Exposures				
OTC Derivatives	570,560	566,788	296,356	23,708
Off balance sheet exposures other than OTC derivatives or credit derivatives	5,670,434	5,086,036	2,204,361	176,349
Defaulted Exposures	15,028	14,470	3,050	244
Total Off Balance Sheet Exposures	**6,256,022**	**5,667,294**	**2,503,767**	**200,301**
Total On and Off Balance Sheet Exposures under SA	**95,838,153**	**92,414,514**	**31,964,754**	**2,557,181**
Exposures under F-IRB Approach				
On Balance Sheet Exposures				
Corporates, of which	55,197,965	55,747,280	35,784,636	2,862,770
Corporate Exposures (excluding exposures with firm size adjustments)	*26,212,808*	*27,144,961*	*16,825,276*	*1,346,022*
Corporate Exposures (with firm size adjustments)	*24,609,731*	*24,630,342*	*16,085,440*	*1,286,835*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*1,436,305*	*1,410,019*	*1,145,043*	*91,603*
Income Producing Real Estate	*2,939,121*	*2,561,958*	*1,728,877*	*138,310*
Defaulted Exposures	*2,339,147*	*1,789,832*	–	–
Total On Balance Sheet Exposures	**57,537,112**	**57,537,112**	**35,784,636**	**2,862,770**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5b: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off Balance Sheet Exposures) as at 31 December 2017 (continued)

RHB Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under F-IRB Approach (continued)				
Off Balance Sheet Exposures				
OTC Derivatives	652,253	652,253	606,211	48,497
Off balance sheet exposures other than OTC derivatives or credit derivatives	10,368,500	10,368,500	6,388,806	511,104
Defaulted Exposures	14,381	14,381	–	–
Total Off Balance Sheet Exposures	**11,035,134**	**11,035,134**	**6,995,017**	**559,601**
Exposures under A-IRB Approach				
On Balance Sheet Exposures				
Retail, of which	78,254,234	78,256,259	25,257,420	2,020,593
Residential Mortgages Exposures	*37,997,311*	*37,997,311*	*9,813,518*	*785,081*
Qualifying Revolving Retail Exposures	*1,969,774*	*1,969,774*	*1,447,524*	*115,802*
Hire Purchase Exposures	*7,502,173*	*7,502,173*	*2,742,715*	*219,417*
Other Retail Exposures	*30,784,976*	*30,787,001*	*11,253,663*	*900,293*
Defaulted Exposures	1,259,725	1,257,700	1,772,486	141,799
Total On Balance Sheet Exposures	**79,513,959**	**79,513,959**	**27,029,906**	**2,162,392**
Off Balance Sheet Exposures				
OTC Derivatives	–	–	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	9,565,030	9,565,030	2,161,581	172,927
Defaulted Exposures	20,646	20,646	39,747	3,180
Total Off Balance Sheet Exposures	**9,585,676**	**9,585,676**	**2,201,328**	**176,107**
Total On and Off Balance Sheet Exposures before scaling factor under the IRB Approach	**157,671,881**	**157,671,881**	**72,010,887**	**5,760,870**
Total On and Off Balance Sheet Exposures after scaling factor, 1.06 under the IRB Approach			**76,331,540**	**6,106,523**
Total (Exposures under the SA Approach and Exposures under the IRB Approach)	**253,510,034**	**250,086,395**	**108,296,294**	**8,663,704**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 6a: Exposures on Off Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2018

RHB Bank Group Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	1,586,463		1,489,145	775,702
Transaction related contingent items	5,189,623		2,525,110	1,226,033
Short term self liquidating trade related contingencies	1,096,963		230,311	180,773
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	20,361		20,361	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	3,300,032		3,300,032	49,234
Foreign exchange related contracts	22,037,911	157,372	481,594	136,430
1 year or less	*21,970,914*	*157,372*	*480,705*	*134,884*
Over 1 year to 5 years	*66,997*	–	*889*	*1,546*
Over 5 years	–	–	–	–
Interest/profit rate related contracts	1,778,792	14,441	60,250	62,582
1 year or less	*127,692*	*754*	*1,051*	*871*
Over 1 year to 5 years	*1,651,100*	*13,687*	*59,199*	*61,711*
Over 5 years	–	–	–	–
Equity related contracts	–	–	–	–
1 year or less	–	–	–	–
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	93,124,696	523,953	1,867,856	591,282
Other commitments, such as formal standby facilities and credit/ financing lines, with original maturity of over 1 year	27,591,598		19,590,614	6,710,059
Other commitments, such as formal standby facilities and credit/ financing lines, with original maturity of up to 1 year	1,903,660		413,373	96,732
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effective provide for automatic cancellation due to deterioration in a borrower's/ customer's creditworthiness	15,311,329		648,880	180,963
Total	172,941,428	695,766	30,627,526	10,009,790

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 6b: Exposures on Off Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2017

RHB Bank Group Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	1,713,757		1,682,543	981,583
Transaction related contingent items	5,241,528		2,599,468	1,390,640
Short term self liquidating trade related contingencies	1,062,958		211,337	184,242
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	–		–	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	629,085		629,085	–
Foreign exchange related contracts	28,160,757	377,145	1,062,992	798,348
1 year or less	*24,502,998*	*238,965*	*597,634*	*330,457*
Over 1 year to 5 years	*3,014,928*	*138,180*	*343,220*	*354,977*
Over 5 years	*642,831*	–	*122,138*	*112,914*
Interest/profit rate related contracts	2,813,217	48,759	159,469	104,219
1 year or less	*890,507*	*27,123*	*27,574*	*1,623*
Over 1 year to 5 years	*1,198,389*	*21,180*	*56,923*	*48,130*
Over 5 years	*724,321*	*456*	*74,972*	*54,466*
Equity related contracts	7,262	–	436	–
1 year or less	*7,262*	–	*436*	–
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	86,738,920	583,798	1,244,661	323,958
Other commitments, such as formal standby facilities and credit/ financing lines, with original maturity of over 1 year	27,782,044		18,656,257	7,526,462
Other commitments, such as formal standby facilities and credit/ financing lines, with original maturity of up to 1 year	2,215,137		527,105	290,190
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effective provide for automatic cancellation due to deterioration in a borrower's/ customer's creditworthiness	15,860,958		103,479	100,470
Total	**172,225,623**	**1,009,702**	**26,876,832**	**11,700,112**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2018

RHB Bank Group Exposure Class	Malaysia (include Labuan) RM'000	Singapore RM'000	Thailand RM'000	Brunei RM'000	Cambodia RM'000	Laos RM'000	Hong Kong RM'000	Indonesia RM'000	Total RM'000
Exposures under Standardised Approach									
Sovereigns & Central Banks	22,201,133	3,211,371	528,329	74,017	926,402	232,657	–	–	27,173,909
Public Sector Entities	10,254,742	610,139	309,713	–	–	–	–	–	11,174,594
Banks, Development Financial Institutions & MDBs	12,507,977	2,886,402	161,906	176,835	414,800	3,860	52,287	124,720	16,328,787
Insurance/Takaful Cos, Securities Firms & Fund Managers	678,635	72,722	–	–	–	–	4,809	–	756,166
Corporates	6,131,008	2,238,336	1,824,679	82,847	1,292,656	59,716	102,841	95,328	11,827,411
Regulatory Retail	5,350,027	1,648,690	103,151	105,553	830,010	182,965	71,117	58,609	8,350,122
Residential Mortgages	99,119	827,769	–	–	–	–	–	–	926,888
Higher Risk Assets	494,574	–	255	–	103	–	–	39	494,971
Other Assets	4,064,298	426,272	163,920	43,955	55,124	14,475	23,468	119,015	4,910,527
Total Exposures under Standardised Approach	61,781,513	11,921,701	3,091,953	483,207	3,519,095	493,673	254,522	397,711	81,943,375
Exposures under IRB Approach									
Corporates, of which	75,456,803	8,278,439	–	–	–	–	–	–	83,735,242
Corporate Exposures (excluding exposures with firm size adjustments)	*43,064,256*	*3,128,203*	–	–	–	–	–	–	*46,192,459*
Corporate Exposures (with firm size adjustments)	*25,861,292*	*4,226,181*	–	–	–	–	–	–	*30,087,473*
Specialised Lending Exposures (Slotting Approach)									
Project Finance	*1,815,187*	*548,821*	–	–	–	–	–	–	*2,364,008*
Income Producing Real Estate	*4,716,068*	*375,234*	–	–	–	–	–	–	*5,091,302*
Retail, of which	103,933,102	–	–	–	–	–	–	–	103,933,102
Residential Mortgages Exposures	*45,960,133*	–	–	–	–	–	–	–	*45,960,133*
Qualifying Revolving Retail Exposures	*3,227,566*	–	–	–	–	–	–	–	*3,227,566*
Hire Purchase Exposures	*7,925,684*	–	–	–	–	–	–	–	*7,925,684*
Other Retail Exposures	*46,819,719*	–	–	–	–	–	–	–	*46,819,719*
Total Exposures under IRB Approach	179,389,905	8,278,439	–	–	–	–	–	–	187,668,344
Total Exposures under Standardised and IRB Approaches	241,171,418	20,200,140	3,091,953	483,207	3,519,095	493,673	254,522	397,711	269,611,719

Note: This table excludes equity and securitisation exposures

Basel II Pillar 3 Disclosures

as at 31 December 2018

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2017

RHB Bank Group Exposure Class	Malaysia (include Labuan) RM'000	Singapore RM'000	Thailand RM'000	Brunei RM'000	Cambodia RM'000	Laos RM'000	Hong Kong RM'000	Indonesia RM'000	Total RM'000
Exposures under Standardised Approach									
Sovereigns & Central Banks	22,501,519	3,082,408	342,482	80,820	946,981	248,870	–	–	27,203,080
Public Sector Entities	7,696,140	611,951	426,336	–	–	–	–	–	8,734,427
Banks, Development Financial Institutions & MDBs	9,418,629	4,300,857	181,947	164,592	280,090	4,549	42,733	87,810	14,481,207
Insurance/Takaful Cos, Securities Firms & Fund Managers	630,968	33,708	9,279	–	–	–	17,964	1,544	693,463
Corporates	24,153,128	2,424,039	1,727,179	75,464	1,082,150	52,895	138,095	78,696	29,731,646
Regulatory Retail	5,348,790	1,417,282	104,323	99,474	773,793	167,359	88,102	48,807	8,047,930
Residential Mortgages	106,573	1,022,003	–	–	–	–	–	–	1,128,576
Higher Risk Assets	17,458	35	249	–	101	–	–	–	17,843
Other Assets	4,074,139	568,799	235,070	10,725	46,727	17,691	62,442	136,288	5,151,881
Total Exposures under Standardised Approach	**73,947,344**	**13,461,082**	**3,026,865**	**431,075**	**3,129,842**	**491,364**	**349,336**	**353,145**	**95,190,053**
Exposures under IRB Approach									
Corporates, of which	61,282,887	7,289,359	–	–	–	–	–	–	68,572,246
Corporate Exposures (excluding exposures with firm size adjustments)	*29,901,433*	*3,427,241*	–	–	–	–	–	–	*33,328,674*
Corporate Exposures (with firm size adjustments)	*25,959,398*	*3,275,840*	–	–	–	–	–	–	*29,235,238*
Specialised Lending Exposures (Slotting Approach)									
Project Finance	*1,428,008*	*586,278*	–	–	–	–	–	–	*2,014,286*
Income Producing Real Estate	*3,994,048*	–	–	–	–	–	–	–	*3,994,048*
Retail, of which	89,099,635	–	–	–	–	–	–	–	89,099,635
Residential Mortgages Exposures	*39,677,873*	–	–	–	–	–	–	–	*39,677,873*
Qualifying Revolving Retail Exposures	*3,153,267*	–	–	–	–	–	–	–	*3,153,267*
Hire Purchase Exposures	*7,601,363*	–	–	–	–	–	–	–	*7,601,363*
Other Retail Exposures	*38,667,132*	–	–	–	–	–	–	–	*38,667,132*
Total Exposures under IRB Approach	**150,382,522**	**7,289,359**	**–**	**–**	**–**	**–**	**–**	**–**	**157,671,881**
Total Exposures under Standardised and IRB Approaches	**224,329,866**	**20,750,441**	**3,026,865**	**431,075**	**3,129,842**	**491,364**	**349,336**	**353,145**	**252,861,934**

Note: This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2018

RHB Bank Group Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance/ Takaful, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	12,579,758	14,594,151	-	-	27,173,909
Public Sector Entities	-	-	-	-	50,419	116	128,778	1,523,942	9,471,339	-	-	11,174,594
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	16,328,787	-	-	-	16,328,787
Insurance/Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	756,166	-	-	-	756,166
Corporates	125,043	111,061	1,211,406	146,866	500,903	1,040,697	426,956	5,724,799	199,492	2,340,188	-	11,827,411
Regulatory Retail	8,536	9,392	129,734	568	91,636	56,592	43,440	61,139	13,012	7,936,073	-	8,350,122
Residential Mortgages	-	-	-	-	-	-	-	-	-	926,888	-	926,888
Higher Risk Assets	-	-	3	-	-	-	-	494,864	-	-	104	494,971
Other Assets	-	-	-	-	-	-	-	283,769	-	-	4,626,758	4,910,527
Total Exposures under Standardised Approach	133,579	120,453	1,341,143	147,434	642,958	1,097,405	599,174	37,753,224	24,277,994	11,203,149	4,626,862	81,943,375
Exposures under IRB Approach												
Corporates, of which	4,003,256	2,419,760	7,639,237	6,098,358	16,378,971	9,835,928	9,756,502	24,905,213	2,698,017	-	-	83,735,242
Corporate Exposures (excluding exposures with firm size adjustments)	*1,127,417*	*1,941,948*	*3,770,839*	*3,535,451*	*6,791,815*	*4,379,558*	*6,951,469*	*15,760,034*	*1,933,928*	-	-	*46,192,459*
Corporate Exposures (with firm size adjustments)	*2,875,839*	*168,046*	*3,486,666*	*1,834,674*	*6,055,845*	*5,094,950*	*2,805,033*	*7,002,331*	*764,089*	-	-	*30,087,473*
Specialised Lending Exposures (Slotting Approach)												
Project Finance	-	*309,766*	*381,732*	*728,233*	*944,277*	-	-	-	-	-	-	*2,364,008*
Income Producing Real Estate	-	-	-	-	*2,587,034*	*361,420*	-	*2,142,848*	-	-	-	*5,091,302*
Retail, of which	313,403	51,423	1,915,427	8,676	1,906,856	5,236,614	464,858	3,129,633	366,960	90,539,252	-	103,933,102
Residential Mortgages Exposures	-	-	-	-	-	-	-	-	-	*45,960,133*	-	*45,960,133*
Qualifying Revolving Retail Exposures	-	-	-	-	-	-	-	-	-	*3,227,566*	-	*3,227,566*
Hire Purchase Exposures	-	-	-	-	-	-	-	-	-	*7,925,684*	-	*7,925,684*
Other Retail Exposures	*313,403*	*51,423*	*1,915,427*	*8,676*	*1,906,856*	*5,236,614*	*464,858*	*3,129,633*	*366,960*	*33,425,869*	-	*46,819,719*
Total Exposures under IRB Approach	4,316,659	2,471,183	9,554,664	6,107,034	18,285,827	15,072,542	10,221,360	28,034,846	3,064,977	90,539,252	-	187,668,344
Total Exposures under Standardised and IRB Approaches	4,450,238	2,591,636	10,895,807	6,254,468	18,928,785	16,169,947	10,820,534	65,788,070	27,342,971	101,742,401	4,626,862	269,611,719

Note: This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2017

RHB Bank Group Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance/ Takaful, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	10,762,728	16,440,352	-	-	27,203,080
Public Sector Entities	-	-	-	-	50,285	3,007	126,870	378,777	8,175,488	-	-	8,734,427
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	14,481,207	-	-	-	14,481,207
Insurance/Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	693,463	-	-	-	693,463
Corporates	625,456	762,777	2,799,617	1,173,455	2,801,275	2,548,883	1,639,538	14,131,600	798,722	2,450,323	-	29,731,646
Regulatory Retail	11,101	4,309	180,290	1,239	168,144	296,740	57,650	191,246	15,919	7,121,292	-	8,047,930
Residential Mortgages	-	-	-	-	-	-	-	-	-	1,128,576	-	1,128,576
Higher Risk Assets	-	-	3	-	-	-	-	17,828	-	12	-	17,843
Other Assets	-	-	-	-	-	-	26,787	507,518	-	-	4,617,576	5,151,881
Total Exposures under Standardised Approach	**636,557**	**767,086**	**2,979,910**	**1,174,694**	**3,019,704**	**2,848,630**	**1,850,845**	**41,164,367**	**25,430,481**	**10,700,203**	**4,617,576**	**95,190,053**
Exposures under IRB Approach												
Corporates, of which	5,154,938	1,762,028	8,316,480	3,382,398	12,431,387	8,524,139	8,011,527	16,019,643	4,969,706	-	-	68,572,246
Corporate Exposures (excluding exposures with firm size adjustments)	*2,107,527*	*1,301,698*	*3,934,275*	*2,713,743*	*4,284,027*	*2,872,700*	*4,705,382*	*7,241,643*	*4,167,679*	-	-	*33,328,674*
Corporate Exposures (with firm size adjustments)	*3,047,411*	*95,562*	*4,003,804*	*225,259*	*5,045,384*	*5,371,125*	*3,306,145*	*7,338,521*	*802,027*	-	-	*29,235,238*
Specialised Lending Exposures (Slotting Approach)												
Project Finance	-	*364,768*	*378,401*	*443,396*	*827,721*	-	-	-	-	-	-	*2,014,286*
Income Producing Real Estate	-	-	-	-	*2,274,255*	*280,314*	-	*1,439,479*	-	-	-	*3,994,048*
Retail, of which	95,252	16,882	954,392	2,574	978,740	3,017,175	239,969	2,002,576	151,786	81,640,289	-	89,099,635
Residential Mortgages Exposures	-	-	-	-	-	-	-	-	-	*39,677,873*	-	*39,677,873*
Qualifying Revolving Retail Exposures	-	-	-	-	-	-	-	-	-	*3,153,267*	-	*3,153,267*
Hire Purchase Exposures	-	-	-	-	-	-	-	-	-	*7,601,363*	-	*7,601,363*
Other Retail Exposures	*95,252*	*16,882*	*954,392*	*2,574*	*978,740*	*3,017,175*	*239,969*	*2,002,576*	*151,786*	*31,207,786*	-	*38,667,132*
Total Exposures under IRB Approach	**5,250,190**	**1,778,910**	**9,270,872**	**3,384,972**	**13,410,127**	**11,541,314**	**8,251,496**	**18,022,219**	**5,121,492**	**81,640,289**	**-**	**157,671,881**
Total Exposures under Standardised and IRB Approaches	**5,886,747**	**2,545,996**	**12,250,782**	**4,559,666**	**16,429,831**	**14,389,944**	**10,102,341**	**59,186,586**	**30,551,973**	**92,340,492**	**4,617,576**	**252,861,934**

Note: This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 9a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2018

RHB Bank Group Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	9,142,970	7,126,740	10,904,199	27,173,909
Public Sector Entities	757,375	5,740,375	4,676,844	11,174,594
Banks, Development Financial Institutions & MDBs	10,769,010	4,107,992	1,451,785	16,328,787
Insurance/Takaful Cos, Securities Firms & Fund Managers	15,617	261,314	479,235	756,166
Corporates	5,720,039	4,331,718	1,775,654	11,827,411
Regulatory Retail	2,461,791	1,200,628	4,687,703	8,350,122
Residential Mortgages	1,248	20,469	905,171	926,888
Higher Risk Assets	358	–	494,613	494,971
Other Assets	83,278	–	4,827,249	4,910,527
Total Exposures under Standardised Approach	**28,951,686**	**22,789,236**	**30,202,453**	**81,943,375**
Exposures under IRB Approach				
Corporates, of which	**32,025,471**	**24,946,708**	**26,763,063**	**83,735,242**
Corporate Exposures (excluding exposures with firm size adjustments)	*16,292,701*	*16,181,951*	*13,717,807*	*46,192,459*
Corporate Exposures (with firm size adjustments)	*13,140,730*	*6,761,105*	*10,185,638*	*30,087,473*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*1,120,736*	*505,552*	*737,720*	*2,364,008*
Income Producing Real Estate	*1,471,304*	*1,498,100*	*2,121,898*	*5,091,302*
Retail, of which	**6,578,696**	**11,106,436**	**86,247,970**	**103,933,102**
Residential Mortgages Exposures	*32,110*	*351,127*	*45,576,896*	*45,960,133*
Qualifying Revolving Retail Exposures	*154,835*	*3,072,710*	*21*	*3,227,566*
Hire Purchase Exposures	*143,274*	*3,174,505*	*4,607,905*	*7,925,684*
Other Retail Exposures	*6,248,477*	*4,508,094*	*36,063,148*	*46,819,719*
Total Exposures under IRB Approach	**38,604,167**	**36,053,144**	**113,011,033**	**187,668,344**
Total Exposures under Standardised and IRB Approaches	**67,555,853**	**58,842,380**	**143,213,486**	**269,611,719**

Note: This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 9b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2017

RHB Bank Group Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	9,381,601	9,020,029	8,801,450	27,203,080
Public Sector Entities	2,511,950	5,052,914	1,169,563	8,734,427
Banks, Development Financial Institutions & MDBs	9,167,341	4,011,617	1,302,249	14,481,207
Insurance/Takaful Cos, Securities Firms & Fund Managers	25,176	331,647	336,640	693,463
Corporates	7,701,975	12,651,315	9,378,356	29,731,646
Regulatory Retail	2,197,457	1,395,340	4,455,133	8,047,930
Residential Mortgages	369	25,830	1,102,377	1,128,576
Higher Risk Assets	385	–	17,458	17,843
Other Assets	–	–	5,151,881	5,151,881
Total Exposures under Standardised Approach	**30,986,254**	**32,488,692**	**31,715,107**	**95,190,053**
Exposures under IRB Approach				
Corporates, of which	32,743,453	16,003,396	19,825,397	68,572,246
Corporate Exposures (excluding exposures with firm size adjustments)	*17,336,405*	*8,175,060*	*7,817,209*	*33,328,674*
Corporate Exposures (with firm size adjustments)	*13,388,803*	*7,020,077*	*8,826,358*	*29,235,238*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*794,021*	*4,590*	*1,215,675*	*2,014,286*
Income Producing Real Estate	*1,224,224*	*803,669*	*1,966,155*	*3,994,048*
Retail, of which	3,791,609	9,862,283	75,445,743	89,099,635
Residential Mortgages Exposures	*30,023*	*351,032*	*39,296,818*	*39,677,873*
Qualifying Revolving Retail Exposures	*171,045*	*2,982,138*	*84*	*3,153,267*
Hire Purchase Exposures	*133,356*	*3,331,726*	*4,136,281*	*7,601,363*
Other Retail Exposures	*3,457,185*	*3,197,387*	*32,012,560*	*38,667,132*
Total Exposures under IRB Approach	**36,535,062**	**25,865,679**	**95,271,140**	**157,671,881**
Total Exposures under Standardised and IRB Approaches	**67,521,316**	**58,354,371**	**126,986,247**	**252,861,934**

Note: This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Standardised Approach for Other Portfolios

The Standardised Approach is applied to portfolios that are classified as permanently exempted from the IRB approach, and those portfolios that are currently in transition to the IRB approach. Under this Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

The following tables show RHB Bank Group's credit exposures for its portfolios with the corresponding risk weights and RWA under the Standardised Approach, after credit risk mitigation (CRM):

Table 10a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2018

RHB Bank Group Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance/ Takaful Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	25,310,390	9,739,873	126,729	-	789,372	-	-	-	1,751,513	-	37,717,877	-
20%	683,207	1,124,643	9,437,657	35,617	1,543,840	-	-	-	283,669	-	13,108,633	2,621,727
35%	-	-	-	-	-	-	854,479	-	-	-	854,479	299,068
50%	20,633	309,713	4,846,107	86,956	181,668	10,969	32,543	-	-	-	5,488,589	2,744,294
64.5%	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	3,734,819	-	-	-	-	3,734,819	2,801,114
100%	1,159,679	-	565,488	633,081	6,963,627	3,495,182	31,390	-	2,875,345	842,708	16,566,500	16,566,500
150%	-	-	-	-	70,455	32,539	-	494,971	-	-	597,965	896,948
Total Exposures	27,173,909	11,174,229	14,975,981	755,654	9,548,962	7,273,509	918,412	494,971	4,910,527	842,708	78,068,862	25,929,651

Table 10b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2017

RHB Bank Group Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance/ Takaful Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	25,684,900	7,270,697	91,163	-	7,403,856	-	-	-	2,120,337	-	42,570,953	-
20%	331,751	1,032,462	9,264,250	35,468	806,156	188	-	-	507,432	-	11,977,707	2,395,542
35%	-	-	-	-	-	-	1,057,281	-	-	-	1,057,281	370,048
50%	8,637	426,337	4,759,999	21,493	175,883	18,416	33,777	-	-	-	5,444,542	2,722,271
64.5%	-	-	-	-	11,413,511	-	-	-	-	-	11,413,511	7,361,715
75%	-	-	-	-	-	3,885,631	-	-	-	-	3,885,631	2,914,223
100%	1,177,792	-	365,795	633,385	7,575,373	2,839,694	28,506	-	2,524,112	648,100	15,792,757	15,792,757
150%	-	-	-	-	218,972	35,317	-	17,843	-	-	272,132	408,198
Total Exposures	27,203,080	8,729,496	14,481,207	690,346	27,593,751	6,779,246	1,119,564	17,843	5,151,881	648,100	92,414,514	31,964,754

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings

For sovereigns, corporate and banking institutions, external ratings from approved external credit assessment institutions (ECAIs), where available, are used to calculate the risk-weighted assets and regulatory capital.

The process used to map ECAIs issuer ratings or comparable ECAIs issue ratings, are in accordance to the standards prescribed by BNM. Approved ECAIs are as follows:

- Standard & Poor's (S&P);
- Moody's Investor Services (Moody's);
- Fitch Ratings (Fitch);
- Malaysian Rating Corporation Berhad (MARC);
- Rating Agency Malaysia (RAM); and
- Rating and Investment Information, Inc (R&I).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2018 compared with 31 December 2017, according to the ratings by ECAIs:

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2018

RHB Bank Group

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures						
Public Sector Entities		778,583	–	–	–	10,395,646
Insurance/Takaful Cos, Securities Firms & Fund Managers		35,617	86,956	88,402	–	544,679
Corporates		1,177,796	125,430	151,168	–	7,743,241

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		–	–	–	–	–
Corporates		351,327	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2018 (continued)

RHB Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Sovereigns & Central Banks		2,882,146	22,527,294	548,705	922,289	–	293,475

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		5,258,473	3,828,322	2,185,751	156,579	–	3,546,856

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2017

RHB Bank Group

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures						
Public Sector Entities		667,371	9,820	–	–	8,052,305
Insurance/Takaful Cos, Securities Firms & Fund Managers		35,468	21,493	–	–	633,385
Corporates		7,585,883	636,635	175,402	–	19,195,831

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		–	–	–	–	–
Corporates		–	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2017 (continued)

RHB Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Sovereigns & Central Banks		2,934,753	22,657,953	350,871	946,981	–	312,522

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		6,821,722	3,911,071	1,569,563	80,837	–	2,098,014

6.0 CREDIT RISK (CONTINUED)

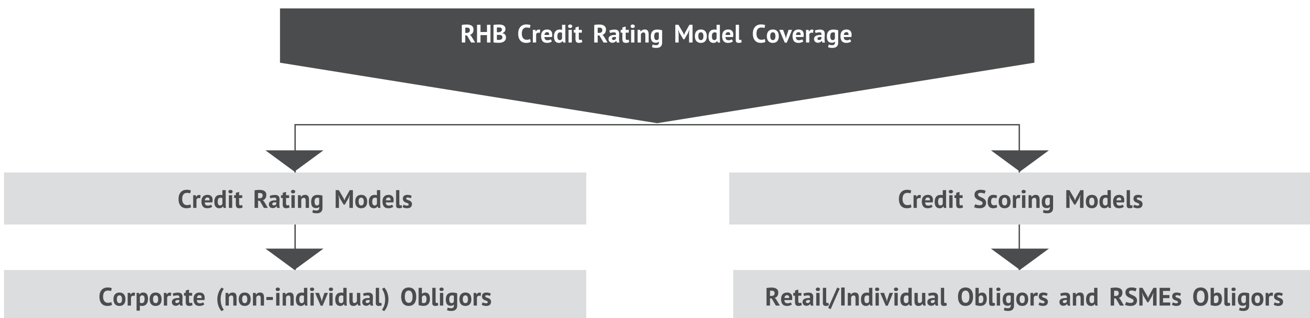
6.6 Internal Credit Rating Models

Internal credit rating models are an integral part of the Group's credit risk management, decision-making process, and regulatory capital calculations. These internal credit rating models are developed by Group Risk Operations with active participation by the relevant credit experts from the Group's functional units and/or business units.

Internal rating model development and implementation process have been established to govern the development and validation of rating models and the application of these models. Specifically, all newly developed models prior to implementation, material changes of the rating systems and validation results must be endorsed by GCRC and approved by BRC. All models are also subject to independent validation by the Model Validation Team before implementation to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by the Model Validation Team to ensure that they are performing as expected.

Credit risk/rating models can be broadly classified into:

- Credit Rating Models
- Credit Scoring Models



The credit rating models for corporate (or non-individual) obligors are used to risk rate the creditworthiness of the corporate obligors/guarantors/debt issuers based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). Different rating models will be applied subject to the obligor's asset and sales volume to create further risk differentiation.

The credit scoring models are for large volume of exposures that are managed on a portfolio basis, which includes program lending/financing for RSMEs. These models are developed through statistical modelling and applied onto the portfolio accordingly. For portfolios where data are readily available or when more granular segmentation is required to support business strategy, more models will be developed and deployed.

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Application of Internal Ratings

The three components of expected loss, the PD, LGD and EAD are used in variety of applications that measure credit risk across the entire portfolio.

- Credit Approval : PD models are used in the credit approval process in both retail and non-retail portfolios. In high-volume retail portfolios, application scorecard and behaviour scorecard are used as one of the risk management tools.
- Policy : Policies are established to govern the use of ratings in credit decisions and monitoring as well as impairment.
- Reporting : Reports are generated to senior management on a monthly basis on the performance of the rating models to show the distribution of the credit exposures by risk rating and monitoring of their performance.
- Capital Management : The capital management and allocation plan takes into consideration the projected RWA computed based on internal rating.
- Risk Limits : The internal ratings are used in establishing the Group's various internal limits (such as industry risk limit).
- Risk Reward and Pricing : PD, EAD and LGD metrics are used to assess profitability of deals to allow for risk-informed pricing considerations and strategic decisions.

F-IRB for Non-Retail Portfolios

The major non-retail portfolios of the Group are on the Foundation Internal Ratings-Based (F-IRB) approach for regulatory capital requirements. Specialised lending/financing uses supervisory slotting criteria. Under this approach, internal rating models are used to estimate the PD for each obligor, while the LGD and EAD parameters are prescribed by BNM. The PD rating model is statistically calibrated, with overlay of qualitative factors and notching guide to arrive at the credit rating.

A-IRB for Retail Portfolios

For regulatory capital requirements, the Group has adopted the Advanced Internal Ratings-Based (A-IRB) approach for the retail portfolios, ie residential mortgages/home financing, credit cards, auto loans/financing, commercial property financing, ASB financing and RSMEs. The Group is continuously working on migrating its relevant significant portfolio under the Standardised Approach towards IRB compliance. The risk estimates – PD, LGD and EAD; are calibrated for these retail portfolios/pools. In addition, application scorecard and behavioural scorecard are developed and implemented for use in credit approval decision support such as limit setting, credit score cut-off and approval, monitoring and reporting.

The following tables set out:

- Exposures subject to the Supervisory Risk Weights;
- Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weights;
- Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weight; and
- Exposures under IRB Approach by Actual Losses versus Expected Losses.

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 12a: Exposures Subject to the Supervisory Risk Weights under the IRB Approach as at 31 December 2018

Disclosure on Specialised Lending Exposures under the Supervisory Slotting Criteria

RHB Bank Group	Exposure After Credit Risk Mitigation					
Supervisory Categories/Risk Weights	**Strong RM'000**	**Good RM'000**	**Satisfactory RM'000**	**Weak RM'000**	**Default RM'000**	**Total RM'000**
Specialised Lending Exposures						
Project Finance	863,017	436,178	676,745	–	–	1,975,940
Income Producing Real Estate	2,539,085	972,702	146,392	27,129	–	3,685,308
Total Exposures after Credit Risk Mitigation	**3,402,102**	**1,408,880**	**823,137**	**27,129**	**–**	**5,661,248**
Total Risk-Weighted Assets	**2,110,657**	**1,267,992**	**946,608**	**67,822**	**–**	**4,393,079**

Table 12b: Exposures Subject to the Supervisory Risk Weights under the IRB Approach as at 31 December 2017

Disclosure on Specialised Lending Exposures under the Supervisory Slotting Criteria

RHB Bank Group	Exposure After Credit Risk Mitigation					
Supervisory Categories/Risk Weights	**Strong RM'000**	**Good RM'000**	**Satisfactory RM'000**	**Weak RM'000**	**Default RM'000**	**Total RM'000**
Specialised Lending Exposures						
Project Finance	63,310	1,487,517	395,538	–	–	1,946,365
Income Producing Real Estate	1,561,093	1,686,683	48,690	–	–	3,296,466
Total Exposures after Credit Risk Mitigation	**1,624,403**	**3,174,200**	**444,228**	**–**	**–**	**5,242,831**
Total Risk-Weighted Assets	**899,221**	**2,530,881**	**510,862**	**–**	**–**	**3,940,964**

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 13a: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2018

RHB Bank Group Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Non Retail Exposures				
Corporate Exposures (excluding exposures with firm size adjustments)				
0 to 1	29,221,505	40.47	45.10	5,913,033
>1 to 4	5,430,509	39.62	101.14	1,724,106
>4 to 12	11,070,904	14.47	60.17	3,036,805
>12 to <100	718,458	11.32	60.12	173,948
Default or 100	1,545,145	42.62	5.36	–
Total for Corporate Exposures (excluding exposures with firm size adjustments)	47,986,521			10,847,892
Corporate Exposures (with firm size adjustments)				
0 to 1	15,634,827	37.32	42.02	4,732,878
>1 to 4	9,146,535	38.58	82.23	2,230,165
>4 to 12	2,929,951	32.13	94.11	844,935
>12 to <100	1,676,226	9.94	42.35	107,312
Default or 100	699,934	38.87	0.22	–
Total for Corporate Exposures (with firm size adjustments)	30,087,473			7,915,290
Total Non Retail Exposures	78,073,994			18,763,182
Retail Exposures				
Residential Mortgages Exposures				
0 to 3	41,155,847	16.47	18.38	1,416,058
>3 to 10	2,507,832	16.64	52.87	62,186
>10 to 20	513,822	16.35	81.14	7,482
>20 to <100	1,120,967	16.42	86.25	2,679
Default or 100	661,665	16.45	21.11	8,798
Total for Residential Mortgages Exposures	45,960,133			1,497,203

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 13a: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2018 (continued)

RHB Bank Group Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Retail Exposures (continued)				
Qualifying Revolving Retail Exposures				
0 to 3	1,542,529	58.19	28.08	3,897,842
>3 to 10	1,149,279	57.79	75.08	666,359
>10 to 20	278,677	56.72	118.25	108,401
>20 to <100	196,910	53.85	148.54	84,193
Default or 100	60,171	54.66	116.49	–
Total for Qualifying Revolving Retail Exposures	3,227,566			4,756,795
Hire Purchase Exposures				
0 to 3	7,375,614	43.75	32.10	–
>3 to 10	158,486	46.62	68.90	–
>10 to 20	247,025	45.29	86.59	–
>20 to <100	61,571	45.99	119.03	–
Default or 100	82,988	46.37	0.17	–
Total Hire Purchase Exposures	7,925,684			–
Other Retail Exposures				
0 to 3	32,222,861	20.79	19.27	10,936,109
>3 to 10	11,246,463	22.25	33.25	368,887
>10 to 20	1,207,610	28.46	59.22	63,569
>20 to <100	1,245,567	24.10	54.52	26,833
Default or 100	897,218	34.20	21.95	11,970
Total Other Retail Exposures	46,819,719			11,407,368
Total Retail Exposures	103,933,102			17,661,366
Total Non Retail & Retail Exposures under IRB Approach	182,007,096			36,424,548

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 13b: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2017

RHB Bank Group Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Non-Retail Exposures				
Corporate Exposures (excluding exposures with firm size adjustments)				
0 to 1	23,185,378	41.82	51.91	8,625,637
>1 to 4	3,861,551	40.96	102.66	1,296,848
>4 to 12	5,754,459	19.30	68.68	3,271,376
>12 to <100	185,673	34.35	179.43	116,003
Default or 100	1,107,116	41.82	–	–
Total for Corporate Exposures (excluding exposures with firm size adjustments)	**34,094,177**			**13,309,864**
Corporate Exposures (with firm size adjustments)				
0 to 1	15,797,297	37.74	43.76	4,873,943
>1 to 4	7,236,922	37.05	79.40	2,641,646
>4 to 12	4,948,193	35.54	103.14	1,412,116
>12 to <100	555,729	33.39	142.18	125,613
Default or 100	697,097	36.97	–	–
Total for Corporate Exposures (with firm size adjustments)	**29,235,238**			**9,053,318**
Total Non Retail Exposures	**63,329,415**			**22,363,182**
Retail Exposures				
Residential Mortgages Exposures				
0 to 3	33,427,612	16.38	18.97	1,094,875
>3 to 10	3,795,272	16.53	54.91	48,746
>10 to 20	1,083,326	16.38	82.03	7,070
>20 to <100	843,684	16.43	85.37	1,892
Default or 100	527,979	16.44	102.09	8,716
Total for Residential Mortgages Exposures	**39,677,873**			**1,161,299**

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 13b: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2017 (continued)

RHB Bank Group Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Retail Exposures (continued)				
Qualifying Revolving Retail Exposures				
0 to 3	1,471,545	58.02	27.99	3,652,029
>3 to 10	1,147,030	57.72	74.90	635,251
>10 to 20	282,657	56.58	118.01	109,136
>20 to <100	189,864	53.77	148.93	69,731
Default or 100	62,171	54.11	410.67	–
Total for Qualifying Revolving Retail Exposures	**3,153,267**			**4,466,147**
Hire Purchase Exposures				
0 to 3	6,841,856	43.79	31.86	–
>3 to 10	238,329	46.76	68.71	–
>10 to 20	327,169	45.50	87.41	–
>20 to <100	94,819	46.27	119.24	–
Default or 100	99,190	46.63	199.25	–
Total Hire Purchase Exposures	**7,601,363**			**–**
Other Retail Exposures				
0 to 3	20,879,105	18.91	17.00	6,868,768
>3 to 10	15,215,868	34.99	53.21	2,494,358
>10 to 20	836,336	38.42	74.58	63,278
>20 to <100	1,146,817	18.40	42.27	24,625
Default or 100	589,006	62.03	139.26	9,874
Total Other Retail Exposures	**38,667,132**			**9,460,903**
Total Retail Exposures	**89,099,635**			**15,088,349**
Total Non Retail & Retail Exposures under IRB Approach	**152,429,050**			**37,451,531**

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 14a: Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weight as at 31 December 2018

RHB Bank Group Expected Losses (EL) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Retail Exposures			
Residential Mortgages Exposures			
0 to 1	43,171,059	19.70	1,456,399
>1 to 10	2,078,268	85.87	38,634
>10 to <100	639,235	19.50	1,083
100	71,571	–	1,087
Total Residential Mortgages Exposures	45,960,133		1,497,203
Qualifying Revolving Retail Exposures			
0 to 1	1,193,315	23.74	3,280,110
>1 to 10	1,759,543	74.93	1,390,505
>10 to <100	274,708	140.67	86,180
100	–	–	–
Total Qualifying Revolving Retail Exposures	3,227,566		4,756,795
Hire Purchase Exposures			
0 to 1	7,131,763	31.06	–
>1 to 10	658,832	73.70	–
>10 to <100	115,778	54.74	–
100	19,311	–	–
Total Hire Purchase Exposures	7,925,684		–
Other Retail Exposures			
0 to 1	39,829,312	16.70	11,156,186
>1 to 10	5,634,876	73.75	233,566
>10 to <100	1,200,238	61.03	17,268
100	155,293	–	348
Total Other Retail Exposures	46,819,719		11,407,368
Total Retail Exposures	103,933,102		17,661,366

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 14b: Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weight as at 31 December 2017

RHB Bank Group Expected Losses (EL) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Retail Exposures			
Residential Mortgages Exposures			
0 to 1	36,200,242	21.24	1,132,894
>1 to 10	3,143,399	89.23	28,175
>10 to <100	274,868	28.39	230
100	59,364	–	–
Total Residential Mortgages Exposures	**39,677,873**		**1,161,299**
Qualifying Revolving Retail Exposures			
0 to 1	1,163,335	41.76	3,053,985
>1 to 10	1,750,903	75.52	1,340,354
>10 to <100	239,029	139.96	71,808
100	–	–	–
Total Qualifying Revolving Retail Exposures	**3,153,267**		**4,466,147**
Hire Purchase Exposures			
0 to 1	6,634,928	30.95	–
>1 to 10	810,593	87.10	–
>10 to <100	112,179	161.39	–
100	43,663	–	–
Total Hire Purchase Exposures	**7,601,363**		**–**
Other Retail Exposures			
0 to 1	27,569,914	14.95	6,939,541
>1 to 10	10,266,012	84.86	2,507,373
>10 to <100	703,696	103.23	13,989
100	127,510	10.78	–
Total Other Retail Exposures	**38,667,132**		**9,460,903**
Total Retail Exposures	**89,099,635**		**15,088,349**

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 15: Exposures under IRB Approach by Actual Losses versus Expected Losses

RHB Bank Group Exposure Class	Actual Losses as at 31 December 2018 RM'000	Expected Losses as at 31 December 2017 RM'000	Actual Losses as at 31 December 2017 RM'000	Expected Losses as at 31 December 2016 RM'000
Corporates, of which				
Corporate Exposures (excluding exposures with firm size adjustments)	**16,673**	154,291	140,376	135,160
Corporate Exposures (with firm size adjustments)	**74,081**	241,792	81,499	199,755
Specialised Lending Exposures (Slotting Approach)				
– Project Finance	**–**	19,103	–	–
– Income Producing Real Estate	**–**	13,951	–	–
Retail, of which				
Residential Mortgages Exposures	**69,738**	157,558	27,457	195,862
Qualifying Revolving Retail Exposures	**62,170**	105,050	120,430	104,439
Hire Purchase Exposures	**40,225**	62,780	14,683	76,478
Other Retail Exposures	**295,326**	509,114	38,446	484,144
Total	**558,213**	**1,263,639**	**422,891**	**1,195,838**

Actual losses are derived from impairment allowances and write-offs during the year, while expected losses (EL) measures the loss expected from the Group's credit exposures as at 31 December of the preceding year.

A comparison of actual losses and EL provides some insight of the predictive power of the IRB approach models used by the Group; however the two metrics are not directly comparable due to the differences in methodology. In particular, the EL used in this comparison is the forecast credit loss from the counterparty defaults of the Group's exposures over a one-year period and is computed as the product of PD, LGD and EAD for the Group's exposures as at 31 December of the preceding year.

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Group generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower/customer, source of repayment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings, and vehicles. Apart from financial collateral and physical collateral, the Group has defined standards on the acceptance of guarantors as credit risk mitigants.

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Group's collateral system.

The Group also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments and On Balance sheet netting to mitigate its financing exposures. Where possible, the Group enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

Equity securities or collaterals acquired arising from debt conversions are accounted for as disposal of the loan/financing and acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as impairment of the relevant asset or business rather than as impairment of the original instrument.

The Group has established mechanism to monitor credit and market concentration within its credit mitigation.

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2018 compared with 31 December 2017:

Table 16a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2018

RHB Bank Group Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On Balance Sheet Exposures			
Sovereigns & Central Banks	24,937,661	–	–
Public Sector Entities	10,484,752	9,239,873	–
Banks, Development Financial Institutions & MDBs	12,361,561	126,729	–
Insurance/Takaful Cos, Securities Firms & Fund Managers	713,073	–	–
Corporates	10,287,093	789,372	1,866,081
Regulatory Retail	7,491,910	–	796,859
Residential Mortgages	888,628	–	8,190
Higher Risk Assets	494,971	–	–
Other Assets	4,910,527	–	–
Securitisation Exposures	–	–	–
Equity Exposures	842,708	–	–
Defaulted Exposures	317,294	–	4,823
Total On Balance Sheet Exposures	73,730,178	10,155,974	2,675,953
Off Balance Sheet Exposures			
OTC Derivatives	2,125,433	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	6,904,271	500,000	2,041,195
Defaulted Exposures	26,201	14,717	73
Total Off Balance Sheet Exposures	9,055,905	514,717	2,041,268
Total On and Off Balance Sheet Exposures	82,786,083	10,670,691	4,717,221

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2018 compared with 31 December 2017: (continued)

Table 16b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2017

RHB Bank Group Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On Balance Sheet Exposures			
Sovereigns & Central Banks	26,392,116	–	–
Public Sector Entities	8,284,169	6,892,447	–
Banks, Development Financial Institutions & MDBs	11,914,477	91,163	–
Insurance/Takaful Cos, Securities Firms & Fund Managers	641,748	–	2,342
Corporates	27,882,075	7,337,048	1,858,761
Regulatory Retail	7,078,996	188	951,662
Residential Mortgages	1,088,699	–	8,571
Higher Risk Assets	17,843	–	–
Other Assets	5,151,881	–	–
Securitisation Exposures	–	–	–
Equity Exposures	648,100	–	–
Defaulted Exposures	482,027	66,808	13,574
Total On Balance Sheet Exposures	**89,582,131**	**14,387,654**	**2,834,910**
Off Balance Sheet Exposures			
OTC Derivatives	570,560	–	3,772
Off balance sheet exposures other than OTC derivatives or credit derivatives	5,670,434	378,250	584,398
Defaulted Exposures	15,028	14,341	559
Total Off Balance Sheet Exposures	**6,256,022**	**392,591**	**588,729**
Total On and Off Balance Sheet Exposures	**95,838,153**	**14,780,245**	**3,423,639**

Basel II Pillar 3 Disclosures

as at 31 December 2018

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2018 compared with 31 December 2017: (continued)

Table 17a: Credit Risk Mitigation of Portfolios under the IRB Approach as at 31 December 2018

RHB Bank Group Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000	Gross Exposures Covered by Other Eligible Collateral RM'000
On Balance Sheet Exposures				
Corporates, of which	72,748,563	19,786,970	4,124,540	12,512,128
Corporate Exposures (excluding exposures with firm size adjustments)	*40,686,208*	*12,342,439*	*2,185,099*	*2,323,477*
Corporate Exposures (with firm size adjustments)	*25,931,911*	*5,973,451*	*1,939,441*	*10,188,651*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*1,906,227*	*311,226*	–	–
Income Producing Real Estate	*4,224,217*	*1,159,854*	–	–
Retail, of which	89,444,481	26,127	8,267,017	59,317,460
Residential Mortgages Exposures	*43,810,063*	–	–	*43,629,442*
Qualifying Revolving Retail Exposures	*2,027,858*	–	–	–
Hire Purchase Exposures	*7,842,696*	–	–	–
Other Retail Exposures	*35,763,864*	*26,127*	*8,267,017*	*15,688,018*
Defaulted Exposures	3,903,679	78,972	24,070	1,442,212
Total On Balance Sheet Exposures	166,096,723	19,892,069	12,415,627	73,271,800
Off Balance Sheet Exposures				
OTC Derivatives	284,258	62,943	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	21,243,921	1,605,888	781,754	10,171,551
Defaulted Exposures	43,442	–	2,707	20,445
Total Off Balance Sheet Exposures	21,571,621	1,668,831	784,461	10,191,996
Total On and Off Balance Sheet Exposures	187,668,344	21,560,900	13,200,088	83,463,796

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2018 compared with 31 December 2017: (continued)

Table 17b: Credit Risk Mitigation of Portfolios under the IRB Approach as at 31 December 2017

RHB Bank Group **Exposure Class**	**Gross Exposures Before Credit Risk Mitigation RM'000**	**Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000**	**Gross Exposures Covered by Eligible Financial Collateral RM'000**	**Gross Exposures Covered by Other Eligible Collateral RM'000**
On Balance Sheet Exposures				
Corporates, of which	55,197,965	10,361,714	5,537,788	12,212,055
Corporate Exposures (excluding exposures with firm size adjustments)	*26,212,808*	*5,448,231*	*3,575,161*	*2,384,929*
Corporate Exposures (with firm size adjustments)	*24,609,731*	*4,510,034*	*1,962,627*	*9,827,126*
Specialised Lending Exposures (Slotting Approach)				
Project Finance	*1,436,305*	*26,286*	–	–
Income Producing Real Estate	*2,939,121*	*377,163*	–	–
Retail, of which	78,254,234	16,474	8,030,444	52,711,716
Residential Mortgages Exposures	*37,997,311*	–	–	*37,815,564*
Qualifying Revolving Retail Exposures	*1,969,774*	–	–	–
Hire Purchase Exposures	*7,502,173*	–	–	–
Other Retail Exposures	*30,784,976*	*16,474*	*8,030,444*	*14,896,152*
Defaulted Exposures	3,598,872	551,340	62,104	1,313,914
Total On Balance Sheet Exposures	**137,051,071**	**10,929,528**	**13,630,336**	**66,237,685**
Off Balance Sheet Exposures				
OTC Derivatives	652,253	224,826	185	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	19,933,530	1,915,552	965,397	9,384,577
Defaulted Exposures	35,027	–	6,186	19,990
Total Off Balance Sheet Exposures	**20,620,810**	**2,140,378**	**971,768**	**9,404,567**
Total On and Off Balance Sheet Exposures	**157,671,881**	**13,069,906**	**14,602,104**	**75,642,252**

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

The Group manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in lending/financing to single customer groups, borrowers/customers engaged in similar activities, or diverse groups of borrowers/customers that could be affected by similar economic or other factors. To manage this concentration risk, exposure limits are established for single borrowing/financing groups and industry segments. Analysis of any single large exposure and group of exposures is regularly conducted and the lending/financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sector-specific analysis are also incorporated within the overall credit risk management regiment. In this respect, the Group seeks to continually update lending or financing guidelines based on periodic reviews and updates of industry and sector risk factors and economic outlook. This facilitates better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The Group regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports generated for senior management, Board committees and Board, include information on portfolio quality, credit rating migration and concentration risk exposures by business portfolios.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer’s financial position, market position, industry and economic condition and account conduct. Specific loans/financings may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Group believes that heightened risk exists in a particular industry, or the borrower/customer exhibits early warning signals such as defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Within Group Risk & Credit Management, there is a mechanism in place for credit monitoring to flag-out problematic loans/financing (watch list accounts) for intensive monitoring under Watchlist Credit Management. These are accounts which may be exhibiting early distress patterns or in the early stages of delinquency but not yet in default.

For these cases, Watchlist Credit Management department will conduct independent assessment and work closely with the business units to implement strategies to address lending/business relationships under Watchlist Credit Management to rehabilitate the accounts after discussion with the borrower/customer to determine the root cause of the problem which may result in rescheduling, restructuring or “exit” strategies to be applied. For the larger accounts, regular position update meetings are held with business units to review or revise these strategies. The relevant guidelines are refined from time to time, to better identify, monitor and resolve such accounts.

Group Internal Audit conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit underwriting standards and financing policies established by the Group’s management, and relevant laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing

The Group adopts BNM's guidelines on Financial Reporting. The principles in this guidelines are in line with those applicable under the International Financial Reporting Standards compliant framework, MFRS 9.

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss (ECL), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as Fair Value Through Profit & Loss and equity securities, which are not subject to impairment assessment. Off balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

MFRS 9 does not distinguish between individual assessment and collective assessment. The Group first assess whether objective evidence of impairment exists for financial assets which are individually significant. If the Group determine that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss which has been incurred. Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, level of collateralisation and other relevant factors) for collective assessment. Collectively, the individually assessment allowance and collective assessment allowance form the total expected credit allowance for the Group.

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cashflows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

The changes in ECL between two-periods will be recognised in profit and loss.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

The assessment of significant deterioration in credit risk since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the PD, LGD and EAD models. Certain ECL models are leveraging on the existing Group's Basel II Internal Ratings-Based model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements.

Individual Assessment – Impairment Triggers

The borrower/customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or interest/profit or both, of any facility(s) of the borrower/customer is past due for 90 days or 3 months and above.
2. In the case of revolving facilities (eg overdraft facilities), the borrower/customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for 90 days or 3 months and above.
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months, the loan/financing exhibits weaknesses (refer to impairment trigger) that would render it to be classified as impaired.
4. Where repayments of the loans/financing are scheduled on intervals of 3 months or longer, the borrower/customer is classified as impaired as soon as a default occurs.
5. Upon occurrence of any one or more Mandatory Status Triggers (MSTs) or any two or more Ancillary Status Triggers (ASTs). These MSTs and ASTs are pre-defined trigger events approved by the Group to facilitate impairment classification.

Note: For R&R facilities, the customer shall be classified as impaired in accordance with paras 1 to 4 above based on the revised or restructured terms.

Individual Impairment Allowances

Borrowers/customers under individual assessment and triggered either by any one of the MSTs or any two of the ASTs will be classified as impaired. Consequently, impairment assessment is to be carried out on these impaired borrowers/customers, based on reasonable and well documented estimates of the future cashflows/realisations of collateral that is expected to recover from the impaired borrowers/customers ie net present value of future cashflows are discounted based on original effective interest/profit rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

Re-classification and Recovery of Impaired Borrowers/Customers

An impaired borrower/customer may be re-classified as a non-impaired status under the following situations:

1. When the loan/financing repayment of the impaired borrower/customer has improved with the principal or interest/profit or both, of its facilities with the Group being past due less than 90 days or 3 months.
2. Where the borrower exhibits weakness(es) that render it to be classified as impaired, even though the loan is past-due less than 90 days or 3 months, such borrowers may be reclassified as non-impaired status when these weaknesses have been subsequently addressed or resolved.
3. Where the borrower/customer has been individually assessed as impaired due to either any one or more MSTs or any two or more ASTs, the borrower/customer may be reclassified as non-impaired status when these triggers have since been addressed and resolved totally, or with only one AST remaining.
4. When the margin account's equity exceeds 130% of the outstanding balance, as determined in accordance with Chapter 7 Rule 703 of Bursa Malaysia Securities Berhad at the end of the calendar month of that occurring.

Write-Off of Impaired Loans/Financing

All loans/financing that satisfy any one of the following criteria, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver/discount already given under approved composite settlement schemes.
3. Abandoned project with no sign of revival. The definition of abandoned project must be in compliance with the definition stated under valuation for abandoned projects.
4. Completed projects but is left abandoned or no occupancy for 12 months with 2 rounds of abortive auctions. This includes units/lots in the same complex/project but have not put up for auction due to cost savings reason.
5. Loans/financing secured with properties which have undergone more than 5 rounds of abortive auctions.
6. Loans/financing secured with property with balance outstanding below RM5,000 subject to judgment obtained against all and borrower(s)/customer(s) uncontactable.
7. For retail and scored loans/financing, the write-off may be expedited for those with ageing of 12 months and above, provided legal action has reached at least writ of summon filed.
8. In the case of credit card and unsecured personal financing, aging is 6 months and above and the write-off is automatic.

Partial write-offs of impaired loans/financing is permitted for the shortfall portion in outstanding balance over the security value which is uncollectible and worthless; and the Group is in the final stage of realising the security/collateral; or in the case of approved composite settlement arrangement, the waiver portion. Further shortfall if any, arising from the disposal of all securities and upon receipt of the sale proceeds, shall be written-off immediately. For loans/financing secured with properties classified as impaired > 3 years with 3 rounds of abortive auctions, the balance outstanding is permitted to be written down to 50% of the value of security, with the shortfall to be written off.

This policy of impairment loans/financing write-off is intended to provide a timely and consistent methodology for loans/financing to be written-off and to reflect the true value of assets in the Group's books.

Basel II Pillar 3 Disclosures

as at 31 December 2018

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

The following tables show RHB Bank Group's impaired and past due loans/financing and allowances by industry sector as at 31 December 2018 compared with 31 December 2017:

Table 18a: Impaired and Past Due Loans/Financing and Allowances for Impairment by Industry Sector as at 31 December 2018

RHB Bank Group Industry Sector	Impaired Loans and Advances/ Financing RM'000	Past Due Loans/ Financing RM'000	Allowances For Credit Losses RM'000
Agriculture	67,839	37,994	51,858
Mining & Quarrying	202,393	6,204	339,083
Manufacturing	478,806	64,773	496,489
Electricity, Gas & Water Supply	89,747	1,456	67,387
Construction	305,692	69,387	324,316
Wholesale, Retail Trade, Restaurants & Hotels	359,494	177,061	205,530
Transport, Storage & Communication	455,837	31,122	372,420
Finance, Insurance/Takaful, Real Estate & Business	362,056	124,627	254,431
Education, Health & Others	17,924	29,034	15,208
Household	1,109,278	4,716,315	878,163
Others	34,488	20,256	246,708
Total	**3,483,554**	**5,278,229**	**3,251,593**

Table 18b: Impaired and Past Due Loans/Financing and Allowances for Impairment by Industry Sector as at 31 December 2017

RHB Bank Group Industry Sector	Restated Impaired Loans and Advances/ Financing RM'000	Past Due Loans/ Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	67,014	23,373	14,112	31,136
Mining & Quarrying	183,277	838	45,631	5,014
Manufacturing	474,311	71,922	195,493	93,117
Electricity, Gas & Water Supply	61,788	39	19,253	13,208
Construction	673,448	44,227	94,789	95,268
Wholesale, Retail Trade, Restaurants & Hotels	436,655	129,290	130,329	158,902
Transport, Storage & Communication	311,404	8,111	113,277	55,626
Finance, Insurance/Takaful, Real Estate & Business	363,112	136,426	45,644	158,184
Education, Health & Others	12,343	1,638,982	3,072	20,567
Household	982,253	7,257,318	100,092	420,282
Others	2,183	2	–	12,982
Total	**3,567,788**	**9,310,528**	**761,692**	**1,064,286**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2018 compared with 31 December 2017:

Table 19: Net Charges/(Write-back) and Write-Offs for Impairment by Industry Sector

RHB Bank Group	Twelve Months Period Ended 2018		Twelve Months Period Ended 2017	
Industry Sector	Net Charges/(Write-back) for Lifetime ECL Credit Impaired (Stage 3) RM'000	Write-Offs RM'000	Net Charges/(Write-back) for Individual Impairment Allowances RM'000	Write-Offs RM'000
Agriculture	**306**	**(174)**	–	(71)
Mining & Quarrying	**7,801**	**–**	3,849	–
Manufacturing	**10,730**	**(9,806)**	50,914	(398,659)
Electricity, Gas & Water Supply	**23,956**	**–**	17,193	(648)
Construction	**(115,211)**	**(16,675)**	47,602	(25,761)
Wholesale, Retail Trade, Restaurants & Hotels	**(13,924)**	**(69,057)**	73,989	(46,596)
Transport, Storage & Communication	**(9,964)**	**(75,589)**	92,824	(66,004)
Finance, Insurance/Takaful, Real Estate & Business	**12,881**	**(32,936)**	(7,037)	(5,455)
Education, Health & Others	**1,139**	**(2,709)**	303	(311)
Household	**315,104**	**(338,930)**	30,713	(257,809)
Others	**49,062**	**(16,095)**	(480)	(4,646)
Total	**281,880**	**(561,971)**	**309,870**	**(805,960)**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

The following tables show RHB Bank Group's impaired and past due loans/financing & allowances by geographical distribution as at 31 December 2018 compared with 31 December 2017:

Table 20a: Impaired and Past Due Loans/Financing and Allowances for Impairment by Geographical Distribution as at 31 December 2018

RHB Bank Group Geographical Distribution	Impaired Loans and Advances/ Financing RM'000	Past Due Loans/ Financing RM'000	Allowances For Credit Losses RM'000
Malaysia	2,195,609	4,932,062	2,076,722
Labuan Offshore	285,737	–	282,193
Singapore	838,978	97,161	793,927
Thailand	33,682	1,045	27,862
Brunei	16,357	18,777	748
Cambodia	88,715	22,439	58,868
Hong Kong	16	–	16
Lao	24,460	206,745	11,257
Total	**3,483,554**	**5,278,229**	**3,251,593**

Table 20b: Impaired and Past Due Loans/Financing and Allowances for Impairment by Geographical Distribution as at 31 December 2017

RHB Bank Group Geographical Distribution	Impaired Loans and Advances/ Financing RM'000	Past Due Loans/ Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Malaysia	1,839,499	7,354,629	227,297	985,564
Labuan Offshore	275,857	-	97,825	10,982
Singapore	1,268,365	1,697,606	306,086	33,511
Thailand	37,295	-	18,767	15,452
Brunei	7,492	28,476	680	1,642
Cambodia	63,103	186,739	38,149	15,679
Hong Kong	69,800	-	69,799	-
Lao	6,377	43,078	3,089	1,456
Total	**3,567,788**	**9,310,528**	**761,692**	**1,064,286**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

The following tables show the reconciliation of changes to loan/financing impairment allowances as at 31 December 2018 compared with 31 December 2017:

Table 21a: Reconciliation of Changes to Loan/Financing Impairment Allowances as at 31 December 2018

RHB Bank Group	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	*513,570*	*925,900*	*1,803,107*	*3,242,577*
– As restated	513,570	925,900	1,803,107	3,242,577
Changes due to financial assets recognised in the opening balance that have:				
– Transferred to 12–month ECL (Stage 1)	*210,496*	*(131,950)*	*(78,546)*	–
– Transferred to Lifetime ECL not credit impaired (Stage 2)	*(42,112)*	*87,737*	*(45,625)*	–
– Transferred to Lifetime ECL credit impaired (Stage 3)	*(12,056)*	*(45,327)*	*57,383*	–
	156,328	(89,540)	(66,788)	–
Allowance made/(written back) during the financial year	(31,805)	250,854	724,343	943,392
Bad debts written off	–	–	(561,971)	(561,971)
Derecognised during the financial year	(46,617)	(95,675)	(375,675)	(517,967)
Transfer from financial assets at FVOCI	–	–	135,716	135,716
Exchange differences	435	3,065	6,346	9,846
Balance as at the end of the financial year	591,911	994,604	1,665,078	3,251,593

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Loans/Financing (continued)

The following tables show the reconciliation of changes to loan/financing impairment allowances as at 31 December 2018 compared with 31 December 2017: (continued)

Table 21b: Reconciliation of Changes to Loan/Financing Impairment Allowances as at 31 December 2017

RHB Bank Group	RM'000
Individual Impairment Allowance	
Balance as at the beginning of the financial year	999,328
Net allowance made	309,870
Amount written off	(517,524)
Exchange differences	(29,982)
Balance as at the end of the financial year	**761,692**

	RM'000
Collective Impairment Allowance	
Balance as at the beginning of the financial year	1,132,836
Net allowance made	225,669
Amount written off	(288,436)
Exchange differences	(5,783)
Balance as at the end of the financial year	**1,064,286**

Note: The impairment as at 31 December 2017 is computed based on MFRS 139 while the impairment as at 31 December 2018 is computed based on MFRS 9. Comparatives have not been restated as provided in the transitional provision of MFRS 9 for Tables 18 to 21.

7.0 MARKET RISK

Market risk is the risk of losses arising from adverse movements in market indicators, such as interest/profit rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking book.

The Group transacts in financial instruments such as debt papers and financial derivative instruments such as futures, forwards, swaps, and options transactions. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to interest/profit rates, exchange rates, debt paper, or equity and indices.

The Group Market Risk Management within Group Risk Management is the working level that forms a centralised function to support senior management in the development of market risk framework, risk limits, operationalise the processes and implement measurement methodologies to ensure adequate risk control and oversight are in place. The main responsibility of managing market risk as the first line of defence remains at the respective business units.

The Group Asset and Liability Committee (Group ALCO) and GCRC perform a critical role in the management of market risk and supports BRC/IRMC in the overall market risk management. Both management committees meet regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Group has established Group Trading Book Policy Statement, frameworks and risk limits as guidance for market risk management. These documents are reviewed regularly and/or upon change in significant event that has a material impact on policy compliance or regulatory changes.

Market Risk Measurement and Control

The Group applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Group adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers ie cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Group conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken. Market risk exposure reports are presented to the senior management, Board committees and the Board.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Group's Hedging Policy that prescribes the overall hedge activities that can be executed by the Group and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

Hedging instruments used to mitigate these risks include derivatives such as options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Group's treasury functions with the approval of Group ALCO.

Basel II Pillar 3 Disclosures

as at 31 December 2018

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Bank Group, RHB Bank, RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017 are shown in the tables below:

Table 22a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2018

RHB Bank Group Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	103,655,634	101,650,268	2,503,081	200,246
Equity Risk	24,749	11,332	71,757	5,741
Foreign Currency Risk	1,074,218	130,166	1,057,283	84,583
Options Risk	168,498	28,728	220,323	17,626
Total			3,852,444	308,196

RHB Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	106,934,978	105,176,520	2,417,320	193,385
Equity Risk	–	–	–	–
Foreign Currency Risk	544,756	114,108	527,821	42,226
Options Risk	18,331	17,397	690	55
Total			2,945,831	235,666

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Profit Rate Risk	10,408,900	10,160,321	241,398	19,312
Equity Risk	–	–	–	–
Foreign Currency Risk	2,218	26,733	26,732	2,138
Options Risk	–	–	–	–
Total			268,130	21,450

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Bank Group, RHB Bank, RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017 are shown in the tables below: (continued)

Table 22a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2018 (continued)

RHB Investment Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	5,890	5,870	–	–
Equity Risk	19,300	11,332	21,982	1,758
Foreign Currency Risk	436,935	264,231	436,935	34,955
Options Risk	150,000	11,332	219,097	17,528
Total			678,014	54,241

Notes:

For year 2018, RHB Bank did not have any exposure under

- equity risk, commodity risk, inventory risk, and
- market risk exposure absorbed by PSIA.

RHB Islamic Bank did not have any exposure under

- equity risk, commodity risk, inventory risk and options risk, and
- market risk exposure absorbed by PSIA.

RHB Bank Group did not have any exposure under

- commodity risk and inventory risk, and
- market risk exposure absorbed by PSIA.

RHB Investment Bank Group and RHB Investment Bank did not have any exposure under

- commodity risk and inventory risk.
- For the Equity Position risk, the position is computed based on net long and net short position.

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Bank Group, RHB Bank, RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017 are shown in the tables below: (continued)

Table 22b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2017

RHB Bank Group Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	103,638,724	102,590,571	2,261,348	180,908
Equity Risk	723,305	132,813	1,324,844	105,987
Foreign Currency Risk	827,307	217,219	813,209	65,057
Options Risk	1,834,723	255,506	560,616	44,849
Total			**4,960,017**	**396,801**

RHB Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	104,913,051	104,038,827	2,172,051	173,764
Equity Risk	–	–	–	–
Foreign Currency Risk	424,132	105,468	410,034	32,803
Options Risk	1,660,445	122,694	290,477	23,238
Total			**2,872,562**	**229,805**

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Profit Rate Risk	9,548,359	9,373,985	199,064	15,925
Equity Risk	–	–	–	–
Foreign Currency Risk	41,624	25,128	41,624	3,330
Options Risk	–	–	–	–
Total			**240,688**	**19,255**

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk (continued)

The Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Bank Group, RHB Bank, RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017 are shown in the tables below: (continued)

Table 22b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2017 (continued)

RHB Investment Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk/Profit Rate Risk	57,480	57,269	357	29
Equity Risk	148,674	132,190	67,446	5,395
Foreign Currency Risk	346,940	293,163	346,940	27,755
Options Risk	120,000	132,190	195,799	15,664
Total			**610,542**	**48,843**

Notes:

For year 2017, RHB Bank did not have any exposure under

- equity risk, commodity risk, inventory risk, and
- market risk exposure absorbed by PSIA.

RHB Islamic Bank did not have any exposure under

- equity risk, commodity risk, inventory risk and options risk, and
- market risk exposure absorbed by PSIA.

RHB Bank Group did not have any exposure under

- commodity risk and inventory risk, and
- market risk exposure absorbed by PSIA.

RHB Investment Bank Group and RHB Investment Bank did not have any exposure under

- commodity risk and inventory risk.
- For the Equity Position risk, the position is computed based on net long and net short position.

8.0 EQUITY EXPOSURES IN THE BANKING BOOK

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself. The Group holds positions as a result of debt equity conversions and for socio-economic and non socio-economic purposes, which are deemed as non-trading instruments.

Holding of publicly traded equity investments comprise quoted shares which are traded actively in the stock exchange. All publicly traded equity exposures and unquoted investments are stated at fair value.

For debt equity conversions, the Group has established a Policy on Debt & Equity Instruments that governs the management of such exposures to ensure that these exposures are effectively managed and accounted for in the Group's books.

For regulatory capital purpose, the Group adopts the Standardised Approach to calculate the risk-weighted exposures.

The risk-weighted assets of equity investments of the Group as at 31 December 2018 and 31 December 2017 are shown in the tables below:

Table 23: Equity Exposures in the Banking Book

RHB Bank Group	**Gross Credit Exposures**		**Risk-Weighted Assets**	
Equity Type	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Publicly traded				
Investment in unit trust funds	**36,342**	–	**36,342**	–
Holdings of equity investments	**137,212**	7,603	**137,212**	7,621
Privately held				
For socio economic purposes	**674,216**	639,842	**677,177**	639,842
For non socio economic purpose	**489,050**	3,593	**733,574**	5,024
Other equity	**860**	860	**860**	860
Total	**1,337,680**	**651,898**	**1,585,165**	**653,347**

	2018 RM'000	**2017 RM'000**
Cumulative Realised Gains/(Loss) from Sale and Liquidations	**(832)**	–
Total Net Unrealised Gains/(Loss)	**499,643**	411,798

9.0 LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into long-term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity Risk Policy, the Group manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objective that underpins the Group's Liquidity Risk Policy includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the IRMC and BRC by performing the critical role in the management of liquidity risk, and is responsible for establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Group's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Group to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets interest/profit rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Group has adopted the BNM's liquidity standards on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Group continues to report NSFR under the Basel III observation reporting to BNM.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Group's response to a liquidity event. The Group's Liquidity Incident Management Procedure also covers the entire Group's operations including foreign branch operations.

10.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK

Interest rate risk/rate of return risk in the banking book refers to the risk of the Group's earnings and economic value of equity due to the adverse movements in interest rate/benchmark rate. The risk may arise from the mismatches in the timing of re-pricing of assets and liabilities from both on and off balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Interest rate risk/rate of return risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – Arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and off balance sheet positions. While such re-pricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying economic value to unanticipated fluctuations as interest/benchmark rates vary;
- Basis risk – Arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest/benchmark rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off balance sheet instruments of similar maturities or re-pricing frequencies;
- Yield curve risk – Arises when unanticipated shifts of the yield curve have adverse effects on the Group's income or underlying economic value; and
- Embedded optionality – Arises primarily from options that are embedded in many banking book positions (eg some fixed rate mortgage/home financing products give borrowers/customers the option to prepay the loan/financing early without penalty, call deposit, where customers have the option of withdrawing the deposit funds at any time).

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk/rate of return risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

The Group ALCO supports IRMC and BRC in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the interest rate/rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest/profit income and economic value of equity, as well as to ensure that interest rate risk/rate of return risk exposures in the banking book are maintained within defined risk tolerances.

In addition, the Group ALM Policy is established to provide the governance of interest rate risk/rate of return risk in the banking book. Interest/benchmark rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its interest rate risk/rate of return risk hedges.

In line with the Group ALM Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest/benchmark rates, interest rate risk/rate of return risk to earnings is controlled using MATs and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest/benchmark rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk/rate of return risk in the banking book in an environment of rapid financial market changes.

10.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in interest/benchmark rates to net earnings and economic value as at 31 December 2018 and 31 December 2017 are shown in the following tables:

Table 24a: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2018

RHB Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	304,697	(304,697)	(1,369,735)	1,369,735
USD – US Dollar	(36,599)	36,599	32,689	(32,689)
Others[1]	21,164	(21,164)	(18,815)	18,815
Total	**289,262**	**(289,262)**	**(1,355,861)**	**1,355,861**

Table 24b: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2017

RHB Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	303,373	(303,373)	(970,127)	970,127
USD – US Dollar	(81,333)	81,333	86,904	(86,904)
Others[1]	36,002	(36,002)	(21,445)	21,445
Total	**258,042**	**(258,042)**	**(904,668)**	**904,668**

Note:
1. Inclusive of GBP, EUR, SGD, etc.
2. The EaR and EVE exposures are additive and do not take into account any correlation impact in the aggregation.
3. The earnings and economic values were computed based on the standardised approach adopted by BNM.

10.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Interest/benchmark rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point interest/benchmark rate change impact.
- For assets and liabilities with non-fix maturity, eg, current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of interest/benchmark rate bearing items.

Economic value is characterised by the impact of interest/benchmark rates changes on the value of all net cash flows, ie, the effect on the economic value of the Group's assets, liabilities and off balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in interest/benchmark rates than is offered by the earnings perspective. The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

11.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Group's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Group's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Group personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidents causing disruption to business activities.

11.0 OPERATIONAL RISK (CONTINUED)

Operational Risk Management Function and Organisation

The Group Operational Risk Management within Group Risk Management has functional responsibility for the development of operational risk framework, policy and methodologies, and providing guidance and information to the business units on operational risk areas. Its responsibility also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risks from new products, processes and systems are adequately managed and mitigated.

The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, Board committees and the Board. These reports include various operational risk information such as risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to senior management daily. Such reporting enables senior management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Operational Risk Management Processes and Tools

The Group applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows:

1. Establish the context;
2. Risk identification;
3. Risk analysis;
4. Risk mitigating; and
5. Risk monitoring.

The Group uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational and Technology Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

11.0 OPERATIONAL RISK (CONTINUED)

Operational Risk Management Processes and Tools (continued)

- **Key Control Testing (KCT)**

  KCT is a methodology to assist business/functional units in performing assessments periodically to determine the effectiveness of key controls by evaluating whether the control procedures/activities are adequately designed to achieve the goals of the function and control objectives; and testing whether the key controls are operating as intended in actual practice. Effective KCT can lead to early detection of control weakness and deficiencies which will assist the senior management and business/functional units to quickly focus on control weakness and take concentrated efforts where they are most needed.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

- **Scenario Analysis**

  Scenario Analysis is used to identify plausible risk scenario that could materialise for assessment. A plausible risk scenario is a possible event resulting in unexpected and extreme losses which may arise when considering a sequence of control failures or individually significant events. Business/functional units are required to assess the potential outcomes related to a variety of operational risks failure, evaluate the vulnerabilities of the Group to the manifestation of plausible risk scenario, and put in appropriate risk mitigation plans to safeguard the Group's safety and soundness.

Risk Mitigation and Controls

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**

  Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorised into five components, namely:

  a. Control environment – management oversight and risk culture, which sets the tone and serves as a foundation for all other components;

  b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;

  c. Control activities – policies and procedures implemented manually and/or system-based to ensure management's directives are executed effectively and efficiently;

  d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilisation, delivered timely, confidentiality is preserved, conform integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and

  e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

11.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls (continued)

- **Business Continuity Management**

  To mitigate the impact of unforeseen operational risk events, the Group has on-going and actively managed Business Continuity Management (BCM) programme for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Group Business Continuity Management Department.

  The Board of Directors has an oversight function through the BRC and GMC. The Group Business Continuity Committee, which reports to GCRC, is the committee that oversees the Group's business continuity framework, policies, budget and plans.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group Sourcing Policy ensures that the risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance/Takaful Management**

  The Group considers risk transfer by means of insurance/Takaful to mitigate operational risk. The Group has a programme of insurance/Takaful designed to reduce its exposure to liability and to protect its assets. The Group purchases insurance/Takaful from leading insurers/Takaful providers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party insurers/Takaful providers and will financially mitigate the economic consequences of risks.

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The Group recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

New Product and Services Approval Process

The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

11.0 OPERATIONAL RISK (CONTINUED)

Capital Treatment for Operational Risk

Currently, the Group adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for RHB Bank Group, RHB Bank, RHB Islamic Bank and RHB Investment Bank as at 31 December 2018 and 31 December 2017, are shown below:

Table 25a: Operational Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2018

Operational Risk	RHB Bank Group RM'000	RHB Bank RM'000	RHB Islamic Bank RM'000	RHB Investment Bank RM'000
Risk-Weighted Assets	**11,762,542**	**8,394,333**	**1,679,551**	**807,022**
Minimum Capital Requirements	**941,003**	**671,547**	**134,364**	**64,562**

Table 25b: Operational Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2017

Operational Risk	RHB Bank Group RM'000	RHB Bank RM'000	RHB Islamic Bank RM'000	RHB Investment Bank RM'000
Risk-Weighted Assets	11,516,719	8,260,751	1,397,487	905,417
Minimum Capital Requirements	921,338	660,860	111,799	72,433

12.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Group will be unable to obtain payment from customers or third-parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross-border assets comprise loans/financing and advances, interest/profit bearing deposits/placements with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency.

The Group is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide adequate protection to its customers as well as the Group's interest, thus reducing the risks associated with business activities.

13.0 REPUTATIONAL RISK

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Group or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practice good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach for incident that affects the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintain proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.
- Maintain proper channels of communication in dealing with internal and external stakeholders.

For the Group's overseas operations, it is the responsibility of the Country Heads to promote awareness and application of the Group's policy and procedures regarding reputational risk, in all dealings with customers, potential investors and host regulators.

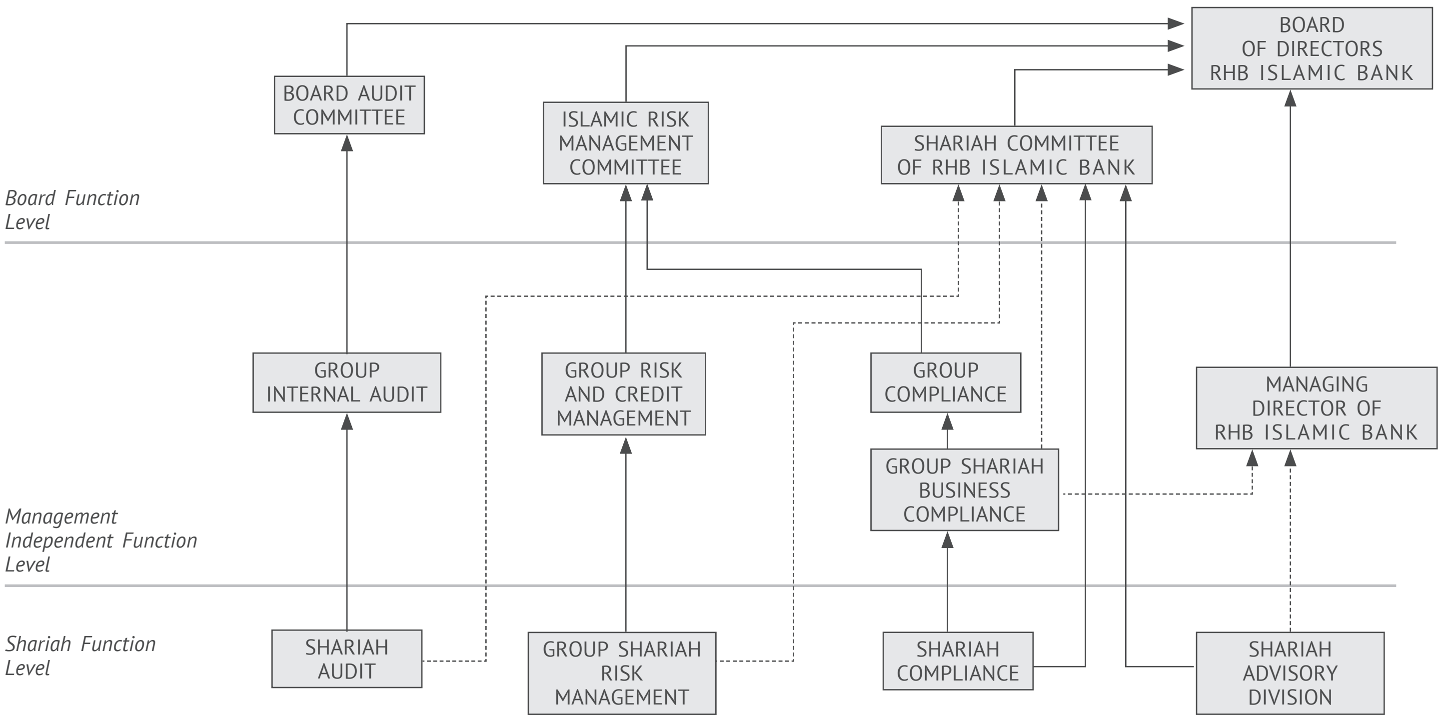
14.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

Shariah non-compliance risk is the risk of loss arising from the failure to comply with the Shariah rules and principles and operationalisation of principles as determined by the Shariah Committee of RHB Islamic Bank or any other relevant body, such as BNM's Shariah Advisory Council and Securities Commission's Shariah Advisory Council.

A Shariah Governance Framework has been developed with the objective of governing the entire Shariah compliance process within Islamic banking operations, and to:

- Ensure that the planning, development, and implementation of the Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the Bank's operations do not contravene any of the Shariah principles and authorities' regulations related to the Shariah; and
- Act as a guide on the Bank's expectations to all personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



The Shariah Committee of RHB Islamic Bank (SCR) was established under BNM's Shariah Governance Framework.

The main duties and responsibilities of SCR are to advise the Board of Directors on Shariah matters in relation to Islamic Banking business and operations, to endorse Shariah compliance manuals, to endorse and validate relevant documents as well as to provide written Shariah opinion on new products and RHB Islamic Bank's financial statements.

On a functional basis, RHB Islamic Bank is supported by Shariah Advisory Division, Group Shariah Risk Management, Group Shariah Business Compliance and Shariah Audit.

14.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

The Head of Shariah Advisory Division reports functionally to the SCR and administratively to the Managing Director of RHB Islamic Bank. The key functions of the Shariah Advisory Division are undertaken by two sub-units, ie Shariah Advisory and Research; and Shariah Governance and Management.

The main duties and responsibilities of Shariah Advisory and Research are to conduct reviews on the Islamic products and services, provide internal Shariah advisory support to the management of RHB Islamic Bank in its daily business and operational matters, assist SCR in elaborating and discussing on pertinent Shariah issues, provide in-depth research on competitive analysis in order to help SCR in making decision and to represent RHB Islamic Bank in any Shariah-related matters. Meanwhile, the main duties and responsibilities of Shariah Governance and Management function are to ensure the internal Shariah governance as well as the internal process flow and policies and Shariah approval process is well managed and maintained in an efficient manner, ensure the Bank is in compliance with the highest standard of Shariah governance as set by BNM, serve as the secretariat of SCR and to act as the mediator between the management and the SCR, oversee the computation and distribution of zakat and funds to be channeled to charity, and conduct Shariah-related training.

The key role and responsibilities of Group Shariah Risk Management is to facilitate the process of identifying, measuring, monitoring and controlling of Shariah non-compliance risks inherent in the Islamic business and operations to mitigate any potential Shariah non-compliance events. Group Shariah Risk Management also performs independent assessment and provides support relating to Shariah non-compliance risk.

Group Shariah Business Compliance conducts review and assists the SCR in providing opinions from Shariah perspective in relation to the status of Shariah compliance of products, services and operations of the Islamic business operations. Shariah Audit provides independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the Islamic business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance.

Any incidences of Shariah non-compliance are reported to the SCR, GCRC, IRMC, BRC, the Board of Directors of RHB Islamic Bank and BNM. Remedial actions may include the immediate termination of the Shariah non-compliant products or services and de-recognition of Shariah non- compliant income.

There is no major Shariah non-compliant event or income arising from the Islamic products or services during the financial year 2018.

15.0 FORWARD LOOKING STATEMENTS

This document could or may contain forward looking statements that are based on current expectations as well as assumptions or anticipation of future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts, and often use words such as anticipate, target, expect, estimate, intend, plan, believe, will, may, should, would, could or other words of similar expressions.

Undue reliance should not be placed on any of such statements. By their nature, forward looking statements are subject to risks and uncertainty because they relate to future events and circumstances, including, but not limited to domestic and global economic and business conditions, the effects of continued volatility in the credit markets, market-related risks such as changes in interest/profit rates and exchange rates, changes in regulation, and future business combinations or dispositions. As a result, the Group’s actual future results may differ materially from the plans, goals, and the expectations contained in the forward looking statements.

The Group undertakes no obligation to revise or update any forward looking statements contained in this document, regardless of whether these statements are affected as a result of new information, future events or otherwise.

15.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 26: Glossary of Terms

A-IRB	Advanced Internal Ratings-Based Approach
BCC	Board Credit Committee
BCM	Business Continuity Management
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
CAFIB	Capital Adequacy Framework for Islamic Banks
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCYb	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EAM	Enhanced Account Management
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EL	Expected Loss
EUR	Euro Dollar
EVE	Economic Value of Equity
F-IRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
GBP	Pound Sterling
GCG	Group Credit Guidelines
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
GMC	Group Management Committee
GRM	Group Risk Management
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
IRB Approach	Internal Ratings-Based Approach
IRMC	Islamic Risk Management Committee
ISDA	International Swaps and Derivatives Association
KCT	Key Control Testing
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
MFRS 9	Malaysian Financial Reporting Standards 9
MFRS 139	Malaysian Financial Reporting Standards 139
Moody's	Moody's Investors Service
MYR	Malaysian Ringgit
NIFs	Notes Issuance Facilities
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
PSIA	Profit Sharing Investment Accounts
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self-Assessment
RM'000	Malaysian Ringgit in nearest thousand
RSME	Retail Small and Medium Sized Enterprises
RWCAF	Risk-Weighted Capital Adequacy Framework
RWA	Risk-Weighted Assets
SA	Standardised Approach
SCR	Shariah Committee of RHB Islamic Bank
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
S&P	Standard & Poor's
VaR	Value-at-Risk

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